PAY AND PERSONNEL MATTERS IN THE ARMED SERVICES

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OF THE

COMMITTEE ON ARMED SERVICES
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PAY AND PERSONNEL MATTERS IN THE ARMED SERVICES

THURSDAY, AUGUST 5, 1982

U.S. Senate,
Subcommittee on Manpower and Personnel,
Committee on Armed Services,
Washington, D.C.

The subcommittee met in open session, at 9:40 a.m., in room 224, Russell Senate Office Building, Senator Roger W. Jepsen (chairman) presiding.

Present: Senators Jepsen, Denton, Exon.

Staff present: Anthony J. Principi, counsel; Richard D. Finn, David S. Lyles, professional staff members; Mary A. Shields, research assistant; Kimberly A. Manning, staff assistant.

Also present: Jim Dykstra, assistant to Senator Cohen; Jon Etherton, assistant to Senator Jepsen; Paul Schreiber and David George, assistants to Senator Denton; Hank Steenstra, assistant to Senator Quayle; Greg Pallas, assistant to Senator Exon; Jim Lafferty, assistant to Senator Jepsen.

OPENING STATEMENT BY SENATOR ROGER W. JEPSEN, CHAIRMAN

Senator Jepsen. Good morning. The Senate Armed Services Manpower and Personnel Subcommittee is meeting today to receive testimony from Dr. Lawrence Korb, Assistant Secretary of Defense for Manpower, Reserve Affairs and Logistics; and Mr. Robert F. Hale, Assistant Director of the National Security and International Affairs Division, Congressional Budget Office. The testimony will focus on compensation and other personnel issues for fiscal year 1983.

Military experts generally agree that the uniformed services are enjoying healthy trends in recruiting and retention. My colleagues and I on the committee are pleased by the many signs of this positive shift in personnel readiness, such as the fact that in excess of 80 percent of the Army's current first-term enlistees are high school graduates.

There are those who attribute this encouraging situation simply to an ailing civilian economy. While the state of the economy has certainly been a factor, there are more positive reasons, for the servicewide improvements. We are now reaping the rewards of momentum which began with the compensation and benefit increases in fiscal year 1981 and continuing through fiscal year 1982. The targeting of pay and benefits last year allowed us to focus on what the committee considered to be the most serious deficiencies, while working within tight funding constraints. This approach did not have the predicted adverse effect on recruiting. In fact, the situation is quite the contrary.

But there is another factor that is as important as the current state of military pay and benefits and that is the resurgence of patriotism and the public perception that the military service is once more an honorable profession. We have come a long way from the situation that existed in the early 1970's. These factors are difficult to measure but they are just as important.

In developing personnel legislation for the coming fiscal year, the committee will try to build on the current successes in personnel readiness. We are convinced that we must do whatever possible to enhance the positive trends noted above if the momentum is to continue.

However, we are very aware that much remains to be accomplished with very finite resources. This underscores the importance of continuing the innovative approach to pay and benefit increases that we used last year. To that end, we intend to put together a comprehensive bill that will combine and balance many devices for maintaining a strong All-Volunteer Force.

We will start today first of all with Mr. Robert Hale, but I will at this time recognize the distinguished Senator from Nebraska, Mr. Exon, for any remarks he may choose to make.

Senator EXON. Mr. Chairman, thank you very much.

Gentlemen, we welcome you here this morning to take up a matter that has been of very great concern to this subcommittee and the full Armed Services Committee on which we serve.

The Senate Armed Services Manpower and personnel Subcommittee is meeting today to receive the testimony from yourselves and Dr. Lawrence Korb, the Assistant Secretary of Defense for Manpower, Reserve affairs and Logistics, and Mr. Hale, the Director of the National Security and International Affairs Division of the Congressional Budget Office.

The testimony will focus on the compensation and other personnel issues for fiscal year 1982. Military experts generally agree that the uniformed services are enjoying healthy trends in recruiting and retention. My colleagues and I on this committee are pleased by the many signs of this positive shift in personnel readiness, such as the fact that in excess of 80 percent of the Army's current first-term enlistees are high school graduates.

What I have been saying is basically what has been said before by the distinguished chairman of our committee. I just want to add these factors: The chairman and I have worked very closely on trying to direct what we feel is the most important part of retention in the armed services, and that is to structure our pay so that we not only have retention but can recruit the right type and quality of personnel into all the armed services.

I think this comes into increasing focus today as we read the newspaper this morning and see the new signals that have been coming from the Department of Defense with regard to force structure—whether or not the Army may be too intent on weapons procurement at the expense of manpower. Therefore, we are looking forward to the testimony from Dr. Korb this morning to see where we are going in this overall area.

There has been some difference of opinion between the majority of this subcommittee and the majority of the Armed Services Committee on the matter of pay targeting, but I think after the last 2 years the Department of Defense probably has come around to the thinking that targeted pay increases, when we have diminishing resources, is probably the best way to maintain the strength that we are all very much concerned about.

Mr. Chairman, certainly the opening statement that you have made—that I quoted from—and certainly the testimony by the gentlemen before us and Dr. Korb is going to have a very important and key part to play in what we do with the ever-diminishing resources while we try and improve our overall readiness.

I thank the chair.

Senator **Jepsen**. Thank you.

Senator Denton, do you have any opening remarks?

Senator **Denton**. No opening statement, Mr. Chairman.

Senator **Jepsen**. Mr. Hale, would you identify the people that are with you, and then you may proceed.

STATEMENT OF ROBERT F. HALE, ASSISTANT DIRECTOR, NATIONAL SECURITY AND INTERNATIONAL AFFAIRS DIVISION, CONGRESSIONAL BUDGET OFFICE, ACCOMPANIED BY DANIEL HUCK, DEPUTY FOR MANPOWER AND SUPPORT ISSUES, CONGRESSIONAL BUDGET OFFICE, AND JOEL SLACKMAN, MANPOWER ANALYST, CONGRESSIONAL BUDGET OFFICE

Mr. **Hale**. Thank you, Mr. Chairman, I would like to introduce Mr. Dan Huck on my left. He is my Deputy for Manpower and Support Issues at CBO, and on my far left Mr. Joel Slackman, a manpower analyst who did many of the projections that I am going to be discussing this morning.

Mr. Chairman, I appreciate the opportunity to testify before your subcommittee on alternative military pay raises. CBO estimates that comparability pay raises for the military would decline from about 8 percent in 1983 to about 7 percent by 1985. In its first resolution on the budget, however, the Congress assumed military pay raises of 4 percent a year over the next 3 years.

Our findings suggest that this "4-4-4" policy, while it would hold down costs, would make it difficult to meet the goals for retention of career military personnel and for recruiting. Indeed, the Army might not meet the minimum recruiting established by the Congress in the later years of the 5-year period.

Thus, the subcommittee may want to consider alternative approaches. CBO has analyzed four such approaches for pay raises for fiscal year 1983; after 1983 each of those would be coupled with comparability increases for most personnel. Those four options include:

A full comparability raise of 8 percent in 1983.

A pay raise of 4 percent for all personnel.

A pay raise targeted on career personnel.

A combination of a pay raise and educational benefits.

Our analysis suggests that under each of these four options the services can meet both their 1983 goals for retention of career personnel and the minimum goals for recruiting set by the Congress.

Moreover, each of the four options for 1983, if coupled with comparability raises beyond 1983, should provide a reasonable chance of continued recruiting and retention success over the next 5 years.

I will discuss these conclusions in a little more detail after a brief background on recruiting and retention.

RECRUITING AND RETENTION

The problems of recruiting and retention are much more severe for enlisted than for officers, and I will concentrate on the enlisted corps throughout my testimony.

To achieve their desired force size, the services must attract about 380,000 recruits in 1983. These recruits must meet service goals for recruit quality—these goals are generally not supplied to the Congress—and they must meet the minimum quality standards set by the law that I know you are well familiar with.

At present, the services are having unparalleled success in recruiting, as your opening statements noted. But as recently as 2 years ago, results were dramatically worse; and, to avoid repeating this drop in quality, the services and the Congress must pay close attention to meeting quality goals for recruiting.

As with recruiting, the services' ability to retain career personnel is very good right now, in contrast to the worrisome exodus of career personnel only a few years ago. Again, recent history argues for close scrutiny of career retention.

Recruiting and retention certainly depend on adequate pay raises, but the results that I will discuss make assumptions about many other factors that affect recruiting and retention. These include other types of military pay, which we generally assume remain constant; economic assumptions about unemployment; and assumptions about civilian pay raises. We use CBO's latest economic asssumptions. We also take into consideration personnel policies like numbers of female recruits, which we assume remain constant.

One such personnel variable does deserve special mention. The Army has indicated that in 1982 and 1983 it will limit the size of its career force by raising standards for reenlistment. CBO's analysis assumes that the Army continues over the next 5 years to limit its career force to about 44 percent of the total force, which is close to today's percentage. As I will note later, this will have an important effect on recruiting. No such limits are assumed for the other services.

THE "4-4-4" APPROACH

Let me turn now to some of our recruiting and retention results. Under the first resolution, as I mentioned, all military personnel would receive three consecutive 4-percent pay raises. Under the "4-4-4" approach, many fewer high-quality recruits would join the military. Recruiting would fall off in all the services, but I will concentrate on the Army which faces the most severe recruiting challenge.

By 1987, we estimate that only about 61 percent of the Army's male recruits would hold high school diplomas under this "4-4-4" approach—that is below, of course, the 65-percent minimum set by the Congress. The projection assumes that the Army limits its number of career personnel. But even with no such limit the Army would fall below the 65-percent target.

Numbers of career personnel in all the services would grow only at modest rates under this "4-4-4" approach, and these modest rates might not provide enough career personnel to man new and more complex weapons entering the inventory. In the Navy, for example, the 1987 career force would fall below service objectives by at least 4,000 persons—or 2 percent—with larger percentage shortfalls likely in critical skills.

Given the potential problems under this "4-4-4" approach, CBO analyzed the effects of four other pay raise options on costs, recruiting, and retention.

OTHER PAY RAISE OPTIONS

Under any of these four options each of the services should meet its 1983 goals for retention. Moreover, the services should be able to recruit enough people while also satisfying the minimum standards for recruit quality. In the Army, for example, 1983 percentages of male recruits holding high school diplomas would range from 74 percent to 77 percent, always comfortably exceeding the 65-percent minimum.

Now, while the options all allow the services to meet their goals, they do differ in costs and in effects on recruiting and retention. Let me briefly mention those differences.

A comparability raise of 8 percent would provide the best recruiting and retention results in 1983. It would also cost $1.5 billion more than was assumed in the first concurrent resolution.

Relative to this full comparability increase, a 4-percent raise for all personnel would result in less success in recruiting, as you would expect, and a smaller increase in number of career personnel. The 4-percent raise, however, would let the services meet their goals and it would leave spending consistent with the dollars assumed in the first resolution.

The targeted pay raise—targeted now on career personnel—would cost about as much in 1983 as a 4-percent raise for all personnel. It would also result in very similar results for both recruiting and for retention of career personnel.

The fourth option that we considered is the most complex. All career personnel would receive a 4-percent raise, but recruits entering in 1983 would receive no pay raise at all. In return, they would be eligible for a less generous version of the educational benefits under H.R. 1400, the bill recently passed by the House Armed Services and Veterans' Affairs Committees.

Specifically, this option would include a basic noncontributory stipend for all persons; supplementary payments for those in critical skills; and special incentives to minimize retention problems.

We estimate this fourth option should also leave 1983 numbers of career personnel at levels similar to those under a 4-percent raise, and recruiting results would be similar. The option would cost about $400 million more than the 4-percent raise assumed in the first resolution.

Advocates of this approach expect special advantages from improving educational benefits in lieu of a recruit pay raise. The approach would move toward the pay system in effect before the All-Volunteer Force, featuring low pay for junior personnel, coupled with substantial educational benefits. By emphasizing educational benefits, such a package might attract more college-bound youths into the services.

On the other hand, data on career plans of those who say they are college-bound suggest that few now enter the military. Thus, the mix of entering recruits might not change substantially even with improved educational benefits. Moreover, countering the recruiting effects of no pay raise with educational benefits is expensive since substantial benefits must be offered to offset the reluctance of youthful recruits to wait several years before receiving them.

Finally, the costs and effects of this combination option are much less certain than those of the other pay raise options we analyzed.

CBO also analyzed the effects of the four pay raise options on recruiting and retention beyond 1983. All the options assume that the Congress grants comparability raises in these years except for raises for new recruits under the educational or fourth option. Recruits, under this option, receive improved educational benefits but their first-year pay is frozen at the 1982 level for the next 3 years.

With this pattern of raises, the services should be able to increase their numbers of career personnel under all four opticns. The Navy's increase would generally meet that services' goals for retention of career personnel. Goals have not been formally supplied to the Congress by the other services.

The services should also have considerable recruiting success beyond 1983. Again, CBO cannot assess prospects for meeting actual service recruiting goals since they are generally not supplied to the Congress. But, except for the Army, recruiting success should match or exceed 1981 levels; and the Army should be able to meet or come close to minimum quality goals set by law.

Moreover, the Army has some flexibility. If it accepted substantial growth in the size of its career force, this would cut down on recruit requirements and allow the Army to meet the 65-percent target more easily. This result suggests the importance of knowing the Army's plan for its career force and assessing that plan's effects on recruiting.

COSTS OF THE OPTIONS

While all four of these pay options provide better recruiting and retention than the "4-4-4" policy in the first resolution, they also, unfortunately, cost a lot more. The option providing a full comparability raise—that is, 8 percent this year and comparability thereafter—would add a total of $19.1 billion more than the "4-4-4" approach. The added costs under the other three options would range from $10.3 billion to $11.4 billion.

In sum, Mr. Chairman, the four pay options I have discussed today would each allow the services to meet their 1983 goals for retention and the minimum goals for recruit quality set by the Congress. Costs would be close to those assumed for 1983 in the first concurrent resolution, at least for the three options that limit pay raises below comparability.

These three options differ primarily on which groups benefit, recruits or more senior personnel, and on risk. The option providing educational benefits in lieu of recruit pay raises stands out as the most far reaching and most risky of the alternatives that CBO analyzed.

Success in recruiting and retention beyond 1983 depends heavily on future pay raise decisions. Coupled with comparability increases beyond 1983, any of the four options discussed in my testimony should provide a reasonable chance of recruiting and retention success.

On the other hand, continued limits on pay raises beyond 1983—such as the "4-4-4" option assumed in the first concurrent resolution—could lead to problems, especially in meeting minimum Army recruiting goals. Indeed, over the long run the Congress can assure the viability of the All-Volunteer Force only if it grants pay raises and other pay increases that keep pace with those in the private sector.

That completes my formal testimony, Mr. Chairman, I will be glad to answer any questions.

Senator JEPSEN. I assume, Mr. Hale, you would like your formal remarks entered in the record as if read.

Mr. HALE. Yes, sir.

Senator JEPSEN. There is no objection, that is so ordered.

[The prepared statement of Robert F. Hale follows:]

PREPARED STATEMENT OF ROBERT F. HALE, ASSISTANT DIRECTOR, NATIONAL SECURITY AND INTERNATIONAL AFFAIRS DIVISION, CONGRESSIONAL BUDGET OFFICE

Mr. Chairman, I appreciate the opportunity to testify before your subcommittee on alternative military pay raises. CBO estimates that comparability pay raises for the military would decline from about 8 percent in 1983 to about 7 percent by 1985. In its First Concurrent Resolution on the Budget for Fiscal Year 1983, however, the Congress assumed military pay raises of 4 percent a year over the next three years. Our findings suggest the this "4-4-4" policy, while it would hold down costs, would make it difficult to meet goals for retention of career military personnel and for recruiting. Indeed, the Army might not meet the minimum recruiting goals established by the Congress.

Thus the Subcommittee may want to consider alternative approaches. CBO has analyzed four alternative pay raises for fiscal year 1983; after 1983, each would be coupled with comparability raises for most persons. The 1983 options include:

A full comparability raise of 8 percent for all personnel;

A pay raise of 4 percent for all personnel;

A pay raise targeted on career personnel; this alternative would provide no raise to personnel in the first two enlisted pay grades but raises of as much as 6 percent at more senior pay grades;

A combination of pay raise and educational benefits; senior personnel would receive a 4 percent raise while new recruits would receive improved educational benefits in lieu of a pay raise.

A backup table at the end of my testimony details the provisions of each of these four options. Our analysis suggests that, under each of the four options, the services can meet both their 1983 goals for retention of career personnel and the minimum goals for recruiting set by the Congress. Moreover, each of the four options for 1983, if coupled with comparability raises beyond 1983, should provide a reasonable chance of continued recruiting and retention success over the next five years.

I will discuss these conclusions in more detail after some background on recruiting and retention and what influences them.

BACKGROUND

Recruiting and retention: Goals and trends

The problems of recruiting and retention are much more severe for enlisted personnel than for officers; thus I will concentrate on the enlisted corps throughout my testimony.

To achieve their desired enlisted force size, the services must attract about 380,000 recruits in 1983. These recruits must meet service goals for recruit quality—goals that are generally not supplied to the Congress—and they must meet minimum quality standards set by law. The law for 1982, which is likely to be extended, requires that at least 65 percent of the Army's male recruits with no prior military service must hold high school diplomas. The law also requires that no more than 20 percent of any service's recruits with no prior military service can score in the lowest acceptable test-score category (Category IV) on an entrance examination given all recruits.

At present, the military services are experiencing recruiting success unparalleled since the advent of the all-volunteer force in 1973. For example, in 1982 the percentage of male Army recruits holding high school diplomas may reach 85 percent, due in large part to the current high rate of unemployment and to military pay raises totaling about 30 percent over the last two years. This contrasts sharply with fiscal year 1980 when only 49 percent of the Army's male recruits held high school diplomas. To avoid repeating this drop in quality, the services and the Congress must pay close attention to meeting recruiting goals for both numbers and quality.

In 1983, the services want to retain 817,000 career personnel, or about 44 percent of the total enlisted force. (Career personnel are those with more than four years' service.) The desired percentages of career personnel are higher in the Air Force and lower in the Marine Corps. As with recruiting, the services' ability to retain career personnel is very good right now. But as recently as fiscal year 1980, there was a worrisome exodus of career personnel. Again, recent history argues for close scrutiny of career retention.

Factors other than pay raises influence results

Retention and recruiting both depend on adequate pay raises. But the results discussed below make assumptions about many other factors that also affect recruiting and retention. For example, the discussion assumes that the real value of bonuses and other pays remains at its current level. Economic factors play a key role. The analysis uses CBO's most recent economic assumptions, which show unemployment declining gradually from its current level of 9.5 percent to 9 percent in 1983 and 7.0 percent by 1987. The analysis also assumes approval of service plans for a slightly larger military, calling for increases by 1987 of about 149,000 enlisted personnel over 1982 levels, a rise of about 8 percent. The analysis also assumes that many other variable that influence recruiting and retention remain at their current levels—such as the number of female recruits and the number of recruits with prior military service. One such variable deserves special mention. The Army has indicated that in 1982 and 1983, it will limit the size of its career force by raising standards for reenlistment. CBO's analysis assumes that the Army continues over the next five years to limit its career force to about 44 percent of the total force, which is close to today's percentage. No such limits are assumed for the other services.

THE "4-4-4" POLICY COULD LEAD TO SHORTFALLS IN RECRUITING AND RETENTION

Under the First Concurrent Resolution, all military personnel would receive pay raises of 4 percent a year in 1983 through 1985. CBO analyzed this policy assuming comparability pay increases beyond 1985. The "4-4-4" policy is, of course, not binding on the Congress, particularly in the years beyond 1983. But such a policy holds down costs and thus may be a point of departure for debates over military pay.

Under the "4-4-4" approach, fewer high-quality recruits would enter the military. Recruiting would fall off in all the services. Table 1, however, shows recruiting results only for the Army, which faces the most severe recruiting challenge. (Backup tables at the end of my testimony provide results for other services.) By 1987, only about 61 percent of the Army's male recruits would hold high school diplomas, which is below the 65 percent minimum set by the Congress. This projection assumes that the Army raises reenlistment standards and limits numbers of career personnel. Even with no such limit, however, the Army would fall below the 65 percent target because lowered pay raises would hold down growth in the Army career force.

TABLE 1. SELECTED ESTIMATES OF RECRUITING AND RETENTION

Pay Raise	Cost Increases Relative to "4-4-4" Policy (billions of dollars)		Recruiting (percentage of Army male NPS recruits holding high school diplomas) a/		Retention (thousands of personnel in all services with more than four years' service) b/	
	1983	Total 1983-1987	1983	1987	1983	1987
			Assuming Limits on Raises Beyond 1983			
Base Case: 4-4-4	0	0	74	61	836	916
			Assuming Comparability Raises Beyond 1983			
8 Percent Raise	1.5	19.1	77	67	841	967
4 Percent Raise	0	10.3	74	65	836	945
Targeted Raise	0.1	10.9	74	64	837	951
Educational Benefits for Recruits in Lieu of 1983-1985 Raises	0.4 c/	11.4 c/	75	63	836	945

a/ Minimum goal is 65 percent.

b/ Goal is 817,000 in 1983; goals beyond 1983 are generally not available.

c/ This option includes the "accrual" costs of liabilities for educational benefits that would be paid in the future. Current educational benefits would be cancelled under this option, resulting in a 1983 reduction of $140 million in liabilities for future benefits. These liabilities do not now appear in the DoD budget, however, and so are not included in this table.

Indeed, numbers of career personnel in all the services would grow only at modest rates under this "4-4-4" policy. These modest rates may not provide enough career personnel to man new and more complex weapons entering the inventory. In the Navy, for example, the 1987 career force would fall below the service objective by at least 4,000 persons, or 2 percent, with larger percentage shortfalls likely in some critical skills.

ALTERNATIVE POLICIES COULD AVOID PROBLEMS

Given the potential problems under the "4-4-4" policy, CBO analyzed the effects of four other pay raise options on costs, recruiting, and retention.

Goals likely to be met in 1983

Under any of the four pay raise options, each of the services should meet its 1983 goal for retention of career personnel. In all the services together, the 1983 numbers of career personnel under the four options would range from 836,000 to 841,000, always exceeding the goal of 817,000 (see Table 1). Moreover, the services should be able to recruit enough people while also satisfying the minimum standards for recruit quality. In the Army, 1983 percentages of male recruits holding high school diplomas would range from 74 percent to 77 percent, always exceeding the 65 percent minimum set by the Congress (see Table 1).

While all the options allow the services to meet 1983 goals, they differ in costs and in effects on recruiting and retention. A comparability raise of 8 percent would provide the best recruiting and retention results, as Table 1 shows. This option is also expensive. Indeed, it would cost $1.5 billion more in 1983 than would the 4 percent raise assumed in the First Concurrent Resolution.

Relative to a full comparability increase, a 4 percent raise for all personnel would result in less success in recruiting and a smaller increase in the number of career personnel (see Table 1). For example, only about 74 percent of Army male recruits would hold high school diplomas compared with 77 percent under full comparability. The 4 percent raise would, however, leave 1983 budget authority and outlays at the level assumed in the First Concurrent Resolution.

The targeted pay raise considered in CBO's analysis would cost about as much in 1983 as would a 4 percent increase for all personnel. A pay raise targeted on career personnel does slightly better at retaining these personnel than does a 4 percent increase across the board. The larger number of career personnel also reduces demands for new recruits so that, despite no pay raise for entering recruits, recruiting results are the same as those under the 4 percent hike. Results for recruiting and retention are, however, worse than under full comparability.

Advocates of a targeted raise note that it would help relieve "pay compression." Shortly before the United States moved to an all-volunteer force in 1973, junior personnel received large pay increases; career personnel did not. This targeted pay hike would move back—though only slightly—toward the ratio of career to junior pay in the early 1970s, which some feel was an important inducement to remain in the military. On the other hand, data on civilian wages by age suggest that the military's current ratio of senior to junior pay is in line with that in the private sector.

The fourth pay option is the most complex. All career personnel would receive a 4 percent increase. But recruits entering in fiscal year 1983 would receive no pay raise. In return, these recruits would be eligible for a less generous version of the educational benefits provided by H.R. 1400, a bill recently passed by the House Armed Services and Veterans' Affairs Committees. Specifically, this option would grant basic educational benefits of $200 a month for up to 36 months with supplemental payments of up to $400 a month for persons in critical skills. CBO's analysis assumes that only Army recruits receive the supplemental payments, as is the case for existing educational benefits. This option would also provide special benefits to minimize adverse effects on retention caused by the incentive to get out and use one's educational benefits.

This fourth option should leave 1983 numbers of career personnel at levels similar to those under a 4 percent increase, since educational benefits have little effect on retention at first. Moreover, the improved educational benefits—especially the supplemental payments—partially offset the lack of a pay raise for junior Army personnel; thus Army recruiting results are similar to those under a 4 percent increase. This option would, however, cost $0.4 billion more in 1983 than the 4 percent raise for all personnel assumed in the First Concurrent Resolution. This occurs because the costs of liabilities for educational benefits to be paid in the future would appear in the DOD budget, and these "accrual costs" would exceed the savings from the zero pay raise for recruits.

Advocates expect special advantages from improving educational benefits in lieu of a recruit pay raise. The approach would move toward the pay system in effect before the all-volunteer force, featuring low pay for junior personnel coupled with substantial educational benefits. By emphasizing educational benefits, such a package might attract more college-bound youth into the services.

On the other hand, data on career plans of those who say they are college-bound suggest that few now enter the military. Thus the mix of entering recruits might not change substantially, even with improved educational benefits. Moreover, countering the recruiting effects of no pay raise with educational benefits is expensive, since substantial benefits must be offered to offset the reluctance of youthful recruits to wait several years before receiving them. Finally, the costs and effects of this combination option are less certain than are those for other pay options. The estimates depend on individual reactions to improved educational benefits, and these reactions are not easily forecast.

Reasonable chance of meeting goals with comparability raises beyond 1983

CBO also analyzed the effects of the four pay raise options on recruiting and retention beyond 1983. For the first three options, CBO assumed that the Congress grants comparability raises in these years. The fourth option assumes comparability increases except for pay of recruits in their first year. These recruits receive improved educational benefits, but their first-year pay is frozen at the 1982 level for the next three years.

With this pattern of raises, the services should be able to increase their numbers of career personnel under all four options. The Navy's increase would generally meet that service's goals for retention of career personnel. Goals have not been formally supplied to the Congress by the other services.

The services should also have considerable recruiting success. Under the options, all the services—except the Army—should be able to meet numerical recruiting goals and maintain recruit quality levels at or above those achieved in 1981. Quality would, however, fall off from the highly successful outcomes likely in 1982. CBO cannot assess prospects for meeting actual service recruiting goals since they are generally not supplied by the Congress.

The Congress has set fairly comprehensive minimum goals for recruit quality in the Army. The Army should be able to meet its numerical goals for recruits and meet or come close to these minimum quality goals. The percentages of male recruits holding high school diplomas range from 63 percent to 67 percent under these options, which are close to or higher than the minimum 65 percent target (see Table 1).

Moreover, the Army has some flexibility. These results assume that the Army tightens its reenlistment standards and holds the size of its career force constant as a percentage of its total force. If the Army accepted greater growth in the size of its career force, this would cut down on recruit requirements and allow the Army to meet the 65 percent minimum more easily. This result suggests the importance of knowing the Army's plan for its career force and assessing the plan's effects on recruiting.

While all four of these pay options provide better recruiting and retention results than the "4-4-4" policy assumed in the First Concurrent Resolution, they also cost more. The option providing full comparability raises over each of the next five years costs a total of $19.1 billion more than the "4-4-4" approach. The added costs under the other three options range from $10.3 billion to $11.4 billion.

SUMMARY

In sum, the four pay options I have discussed today would each allow the services to meet their 1983 goals for and retention and the minimum goals for recruit quality set by the Congress. Costs would be close to those assumed for 1983 in the First Concurrent Resolution, at least for the three options that limit pay raises below comparability. These three options differ primarily on which groups benefit, recruits or more senior personnel, and on risk. The option providing educational benefits in lieu of recruit pay raises stands out as the most far-reaching and most risky of the alternatives CBO analyzed.

Success in recruiting and retention beyond 1983 depends heavily on future pay raise decisions. Coupled with comparability increases beyond 1983, any of the four options discussed in my testimony should provide a reasonable change of successful recruiting and retention. On the other hand, continued limits on pay raises beyond 1983—such as the "4-4-4" policy assumed in the First Concurrent Resolution—could lead to problems, especially in meeting minimum Army recruiting goals. Indeed, over the long run, the Congress can assure the viability of the all-volunteer force only if it grants pay raises and other pay increases that keep pace with those in the private sector.

TABLE 1. SUMMARY DESCRIPTION OF ALTERNATIVE PAY RAISE PLANS

Pay Raise Plan		Description	Projected Raises by Fiscal Year					
			Grade	1983	1984	1985	1986	1987
I.	"4-4-4" Percent Raises	Adopts First Resolution and caps pay raises at 4 percent 1983 to 1985. Plan assumes comparability raises thereafter	E1-E9	4.0	4.0	4.0	6.7	6.6
II.	8 Percent Raise (full comparability)	Provides raises (1983-1987) that match those estimated by CBO for the private sector	E1-E9	8.0	7.5	7.0	6.7	6.6
III.	4 Percent Raise	Caps raise at 4 percent in 1983, but continues with full comparability raises beyond 1983.	E1-E9	4.0	7.5	7.0	6.7	6.6
IV.	Target Raise	Targets money available for 1983 raise under First Resolution (equivalent to about 4 percent raise) toward the career force.	E1-E2	0.0	7.5	7.0	6.6	6.6
			E3-E4	4.0	7.5	7.0	6.7	6.6
			E5-E9	6.0	7.5	7.0	6.7	6.6
V.	Educational Benefit and Recruit Pay Freeze	Freezes pay for recruits in their first year of service at 1982 levels for 1983-1985 and substitutes certain educational benefit provisions under H.R. 1400. In 1983, all others receive 4 percent raise.	E1-E2	0.0	0.0	0.0	6.7	6.6
			E3-E9	4.0	7.5	7.0	6.7	6.6

TABLE 2. PERCENTAGE OF MALE RECRUITS WITHOUT PRIOR SERVICE ENLISTING WITH A HIGH SCHOOL DIPLOMA
(CBO projections by fiscal year)

Pay Raise Plan	1983	1984	1985	1986	1987
I. "4-4-4" Percents, 1983-1985 (First Resolution)					
Army	74	71	65	64	61
Navy	71	74	66	68	69
Marine Corps	84	79	74	74	73
Air Force	94	90	76	82	80
II. 8 Percent Full Comparability in 1983					
Army	77	76	71	70	67
Navy	75	82	77	81	83
Marine Corps	88	86	84	85	86
Air Force	99	99	91	99	99
III. 4 Percent in 1983					
Army	74	73	69	68	65
Navy	71	77	73	76	77
Marine Corps	84	82	80	80	80
Air Force	94	96	84	93	91
IV. Target Raise at Career Force in 1983					
Army	74	73	68	67	64
Navy	71	77	73	76	77
Marine Corps	85	83	81	81	81
Air Force	94	96	84	93	91
V. Educational Benefit for Recruits Instead of Raise in First Three Years					
Army	75	73	67	66	63
Navy	73	79	73	77	78
Marine Corps	87	84	82	83	83
Air Force	99	98	85	94	93

TABLE 3. NUMBER OF ENLISTED CAREER PERSONNEL WITH MORE THAN FOUR YEARS OF SERVICE (CBO projections by fiscal year, in thousands)

Pay Raise Plan	1983	1984	1985	1986	1987
I. "4-4-4" Percents, 1983-1985 (First Resolution)					
Army a/	313	324	321	315	314
Navy	224	237	244	250	259
Marine Corps	60	64	65	66	67
Air Force	255	262	272	279	285
II. 8 Percent Full Comparability in 1983					
Army a/	317	336	342	345	351
Navy	226	242	255	267	280
Marine Corps	61	67	71	75	78
Air Force	257	268	283	294	304
III. 4 Percent in 1983					
Army a/	314	327	330	330	334
Navy	224	238	249	258	271
Marine Corps	60	64	68	71	73
Air Force	255	264	277	286	296
IV. Target Raise at Career Force in 1983					
Army a/	314	330	334	335	340
Navy	225	240	252	262	275
Marine Corps	60	65	69	72	75
Air Force	255	264	278	288	297
V. Educational Benefit for Recruits Instead of Raise in First Three Years					
Army a/	313	327	330	330	334
Navy	224	238	249	258	271
Marine Corps	60	64	68	71	73
Air Force	255	264	277	286	296

a/ These numbers represent potential size of career force under reenlistment standards in effect prior to 1982. The Army, however, intends to constrain the size of its career force. CBO's analyses assumed the following numbers of Army career personnel (in thousands, by fiscal year): 1983, 297; 1984, 298; 1985, 299; 1986, 303; and 1987, 305.

Senator **Jepsen**. You presented evidence to the subcommittee staff that suggests that civilian wage increases vary between young workers and older workers; sometimes younger workers receive more, sometimes less.

How do you account for these differences in the projections that you make for the subcommittee, and how do you think the subcommittee should take these differences into account?

Mr. **Hale**. Well, Mr. Chairman, it is true, as you said, that young workers sometimes get more in raises and sometimes less. Our projections do not take this into account explicitly because we do not have the analytic tools that allow us to make projections of raises for younger versus older workers.

I would add that the differences have tended to be small in the past, and so I do not think that those differences really would greatly affect our projections.

As far as the subcommittee taking into account the differences, I think you might want to use your assumptions about likely differences in pay raises for younger versus older workers as one piece of information in deciding whether to target pay increases.

But we would emphasize that we think the question you should focus on is how well a given package of pay raises does for recruiting and retention. We tried to make estimates in our testimony that allow you to apply that criterion as you judge among pay options.

Senator **Jepsen**. Why do you think people serve in the armed services, is it for just money?

Mr. **Hale**. Well, certainly not, Mr. Chairman. You stated well in your opening statement a variety of factors that influence them, patriotism being among them. We cannot estimate very well the effects of factors like patriotism, although I do not downplay their importance in any way. We can try to tell you what the decisions you will make here might do, and their decisions usually focus on pay. That is why in our testimony there is a focus on economic factors like pay raises.

Senator **Jepsen**. What about all the other things, should they not be considered when you are looking at the amount of income or benefits for a recruit? Does a recruit get fed; does he get housed; does he get medical treatment and care?

Mr. **Hale**. Yes.

Senator **Jepsen**. Isn't that worth something?

Mr. **Hale**. Yes, definitely. We have assumed, in the projections we have done for you today, that those kinds of pays remain constant at their current real level; that is, there are no major changes either up or down in their real value.

If there were changes, then they would affect these results, and we could take those kinds of things into account at least roughly. We focused today on pay raises since that was the major question that is before the subcommittee right now. But allowances for food and housing and medical care are certainly an important element of pay.

Senator **Jepsen**. Now, you have already suggested that the part of projecting is a rather uncertain one and you said that there are some uncertainties in your forecast.

You argue at the same time that the three successive pay raises of 4 percent would cause problems in recruiting and retention goals, especially in meeting the Army recruit quality goals. "At the same time, there will be strong pressure to hold down raises to meet budget constraints." Is it possible to achieve our manpower goals and still get some cost savings? Would you comment on that?

Mr. **Hale**. Well, achieving savings will be a challenge, Mr. Chairman, as you well know.

There certainly are uncertainties in our forecasts, I think. However, there are some trends under that "4-4-4" approach that are robust enough, if you will, to withstand those uncertainties. It seems clear that recruiting would be a good deal more of a problem under the "4-4-4" approach.

I understand, though, the fiscal constraints that face the Congress. I think that if you are going to try to achieve cost savings and still keep reasonable recruiting and retention success, you will have to consider targeting pay—probably through bonuses, also perhaps through improved educational benefits if those were targeted.

I think the general approach would limit overall pay raises and try to meet specific problems of recruiting and retention with pay targeted on those problems. That tends to be cheaper. It is not an easy thing to do, but it may be the best hope you have of achieving some cost savings while also keeping up recruiting and retention success.

Senator **Jepsen**. I understand that Dr. Korb's testimony will state, among other things, that Army recruiting is a major military manpower problem in the future; do you agree?

Mr. **Hale**. I think that, based on the evidence we have, it is certainly one of the key problems, Mr. Chairman. I say that because the Army is really the only service that is in any jeopardy of breaching the minimum recruit quality goals set by the Congress.

Unfortunately, we generally do not have the services' own goals for recruiting and retention except in the budget year. So, it is hard to say whether Army recruiting is the key problem. Some of those service goals may be much higher than the minimum set in the law; and, therefore, they may be difficult to achieve.

Senator **Jepsen**. I have some additional questions and we will submit those for the record.

I now recognize Senator Exon.

Senator **Exon**. Mr. Chairman, thank you very much.

Mr. Hale, I have several questions. First, let me see if we can get on the record your bottom-line recommendation with regard to the targeted military pay in view of the 4-percent increase that we have presently set as our goal.

In your opinion, are there any policy reasons for targeting the 4-percent military pay for this year?

Mr. **Hale**. I assume you are referring to targeting it on career personnel, more for career, less for junior people.

Our results, at least for the option we analyzed, show that targeting would really have very similar impacts on recruiting and retention, mainly because the raise is small and the degree of targeting is not very much. So there would not be any major effects.

I think, again based on the information we have—and we often lack the service goals for retention—that they could be met under either pay raise, targeted or not. So, on that basis there is not a great deal of basis for choice either for or against targeting.

I emphasize again that the Congress does not have many of the service goals for recruiting and retention. So, it is hard to know for sure what pattern of pay raises is most appropriate.

Senator EXON. I guess my concern is, and I have been a strong proponent, as you know, of targeted pay raises in the past, mainly for retention of the people that we most want to retain.

It seems to me, though, that when we are down to a 4-percent pay raise, if we are going to do much targeting then we are not going to have anything left at all for those who play an important part in our overall force projection and structure. This would happen if they do not fall within that area that we continually focus on with regard to the retention of those we need the most.

I guess my point is that I am a little bit fearful that if we start targeting such a relatively, comparatively small amount of additional funds, we might be treading into some areas that could cause some major destruction. Do you agree or generally disagree with that?

Mr. HALE. Senator, I presume you are alluding to the suggestion there be a zero raise under the option we looked at, for example, for recruits in their first year.

Again, the analytic tools we have show that it is not going to have much of an effect—the person is only a recruit for 1 year and it is the difference between four and zero, which is not all that much.

There may be a psychological effect that is harder, really impossible, to quantify, but which I think is something that this committee is going to have to consider. That is, what sort of feeling a recruit would have if you tell him that this year we are just going to skip his raise in favor of those for career personnel. That would be worrisome to me personally, and I think it is something you might want to consider.

I would make two other points about targeting. One in terms of longrun costs that we did not mention. Targeting, as you know, is eventually going to increase the retirement bill above what it would otherwise have been. It will take 20 years for it to show up in the Federal budget, because of the way we account for retirement pay, it is still something you may want to keep in the back of your mind.

Second, I think that if you were to continue to target raises over a period of years, particularly if you gave a series of zero pay raises to recruits, it could have a significant effect on recruit quality, particularly in the Army.

So, in terms of this year's raise the effect would be small and it probably would not make a great deal of difference in recruiting and retention though there may be psychological effects. The longrun implications, if you kept doing it, could be much more significant.

Senator EXON. Mr. Hale, CBO has been critical in the past of the new GI bill because you viewed it as an expansive and inefficient way to attract new recruits. In fact, CBO has pointed out in the past that if GI bill benefits were enacted across the board for all services, Army recruiting might actually suffer because most high-quality recruits might be drawn to the other services.

Is this still the CBO position on any new GI bill, and have you developed any new information that would change your earlier position or, on the other hand, fortify that position?

Mr. **Hale**. I think the analytic results that you cited remain true as far as we know them. We do not make recommendations as you are well aware. But it does appear that across-the-board benefits tend not to be as cost effective in meeting specific recruiting problems. You spend a lot more money for people who would have joined anyway, or people in excess of those needed to meet the service goals.

An across-the-board benefit with no special benefits for any service would also run the risk, I think, of taking away the edge that the Army needs and has now. The current educational benefits are heavily targeted toward the Army. To the extent that you target the educational benefits more carefully on areas where there are problems—that is, on recruiting critical skills primarily in the Army—then it becomes more cost effective and the concern over hurting the Army becomes less.

The option we looked at in this testimony, which combines a recruit pay freeze with additional educational benefits, really falls in the middle. It has an across-the-board benefit but there is also some substantial targeting. It would be somewhat more targeted, I think, than the H.R. 1400 bill that is being debated in the House.

Senator **Exon**. Mr. Hale, this next question does not have anything directly to do with what we are discussing here this morning. But it has to do, I think, with our projection for the future as to what we are going to do to attract the right type of men and women into our armed services which we all recognize as having importance.

On the other hand, we must recognize that indeed we are making decisions from time to time that are going to dramatically increase the costs in the outyears. To use your words, "the way we keep books around here." I think it does have an important part not only with regard to cost but with regard to some kind of a plan to make it attractive for the people to stay in the military service.

Of course, one of my concerns is about the so-called GI bill, this has a magical term around it because it was so eminently successful, basically designed to reward those who went off and served their country while others stayed at home and lived the good life.

I have always been somewhat confused by complicating a GI bill, educational benefits, into attracting people into the service because the basic thrust of a GI bill is to get people in, have them serve 1, 2, or 3 years and then it encourages them to leave. This leads me into my next question with regard to cost and what we are going to do.

It seems to me, Mr. Hale, that we have been proceeding in basically a patchwork fashion with regard to how we are going to retain—attract first and retain—people in the armed services because of the fact that we are continuing that patchwork on top of a rather attractive retirement system after only 20 years in the service, which is dramatically different from those people who either served in the civil service or, more importantly, work similarly in the private sector.

My question is, has CBO done any studies in detail, or made any projections on the restructuring of our retirement benefits for the military and military retirement pay?

In asking the question—to try and calm the waters whenever I ask this question from anyone in the military—I think we should not and must not make any change in the commitments which were made to people when they come into the service or those in the service now.

My question, though, focuses on a hypothetical question as to whether CBO has done any studies which would indicate that maybe at some time in the future—whether it is October 1, 1986, or 1996—should we at that time have a cutoff plan, better pay for the recruits but try and keep those whom we want to keep in the service longer than this magical 20-year figure that I think is very attractive to the people who want to get into the service. Once again, however, it is mustering out today some people who are 40 years old when indeed we need those people in the service as much at 40 as we did when they first came in at 19 or 20.

Mr. HALE. It is a good question, Senator Exon. We have done analyses over a period of 5 or 6 years of this issue, although most of them are not recent. Interest in the Congress has died down somewhat, and we have responded by not doing any studies very recently.

I think the key issue is one you are implicitly speaking to, and that is the requirements for personnel in the military. In otherwords, what kind of military career do we really want to encourage?

If you start with the assumption that there are at least some categories of personnel—perhaps the officer corps would come immediately to mind and some enlisted—where you want to keep large numbers of people beyond 20 years, and that perhaps you want also some additional lure from the retirement system to get people to stay in at the first reenlistment point, then the approaches that have been recommended by innumerable study groups over the past 15 years come immediately to mind.

That would be some combination of reduced benefits for those who retire at 20 years and probably as much or maybe even more for those who stay for a full 30. Combine that with early vesting—that is, some right to some pension benefits, probably on a deferred basis, for those who leave after perhaps 10 years of service.

That combination has been recommended in varying forms by maybe half a dozen study commissions—including some that the Department of Defense headed up—but has never really been enacted by the Congress.

Senator EXON. Why is that?

Mr. HALE. You may be a better judge of that, but there are some strong feelings and concerns over how quickly it would be phased in. That is obviously a paramount concern of the service members, and understandably of the people who are now under the system.

There has been uncertainty in recent years about career retention. We are not sure how people would react, especially to a far-reaching change. I think this has probably caused the Congress to be reluctant to consider changing the retirement system at a time when we had serious retention problems.

But I think those proposals still potentially have merit if you decide you want to encourage people to stay past 20 years. Should the subcommittee want to look at that, we would certainly be happy to try to lay out the effects of some sensible alternatives on both costs and retention.

Senator **Exon**. Thank you, Mr. Hale. Thank you, Mr. Chairman.

Senator **Jepsen**. Sentor Denton?

Senator **Denton**. No questions, Mr. Chairman, thank you.

Senator **Jepsen**. Thank you, Mr. Hale.

Mr. **Hale**. Thank you.

Senator **Jepsen**. Good morning, Dr. Korb.

Dr. **Korb**. Good morning, Senator.

Senator **Jepsen**. You may proceed as you wish.

STATEMENT OF HON. LAWRENCE J. KORB, ASSISTANT SECRETARY OF DEFENSE FOR MANPOWER, RESERVE AFFAIRS, AND LOGISTICS

Dr. **Korb**. Mr. Chairman, as always I appreciate the opportunity to appear before the committee and discuss compensation and personnel issues.

As you know, the military departments are enjoying success in both recruiting and retention. We owe a great debt of gratitude for this success to this subcommittee and the Congress, which in recent years have brought about a decent standard of living for military personnel. This has been accomplished through making basic pay more competitive, increasing the bonus program, and raising other pay and allowances.

In addition to these compensation improvements, as President Reagan has said, "There is a new spirit of pride and patriotism alive in the land, and the impressive manpower record of the Armed Forces during fiscal year 1981 reflects this." Such spirit and support have greatly helped the services meet all their manpower needs on a volunteer basis.

All of the services were able to meet their recruiting goals in fiscal year 1981 and through the first 9 months of fiscal year 1982. Retention rates in all the services have improved dramatically. Our manpower goals are ambitious, so we cannot afford to become complacent with these successes. We are entering a time when there will be a decline in the 18-year-old population and an improvement in economic conditions.

With this as a background I would like to discuss several areas which are of particular concern to the Department of Defense. These include: Targeting of pay, educational benefits, the bonus program, contracting out, and the pay adjustment mechanism. I will also briefly mention some issues which are of particular concern today.

TARGETING

In terms of the impact on force manning much of the current debate about targeting has centered on whether recruiting or retention is the greater problem. I believe both are equally important if we are going to meet our needs on an all-volunteer basis.

Statements have been made that since recruiting is going so well, we do not have to give first termers a pay raise. The same could also be said about retention: It is better than it has ever been. We do have some career force manning problems in specific skills. To correct these problems we have used reenlistment bonuses to improve retention. We believe this method of targeting monetary resources is preferable to targeting a pay raise by grade and years of service. The bonuses provide a greater differential in pay and concentration on those skills in which there are significant shortfalls.

Our projections show that the most likely future manpower problem will be Army recruiting. We do not advocate, however, targeting to junior enlisted at this time. As a matter of equity, and in order to meet our future manpower requirements, the Department supports an across-the-board pay raise.

EDUCATIONAL BENEFITS

In the current debate on targeting it has come to my attention that there are proposals to fund a new GI bill be eliminating the proposed 4-percent pay raise for E-1's and E-2's. The Department strongly disagrees with this method of financing and educational benefits program for the following reasons:

It would not come close to the $1 billion required to fund H.R. 1400.

It would substitute benefits—pay and education—to all enlistees which are lower than the current system of pay plus VEAP and ULTRA-VEAP.

It would compel first termers to subsidize benefits for the enlisted career force and officers.

Because of the success of the Department's recruiting and reenlistment programs, the high relative cost of broad-based educational programs and current economic conditions, the administration supports the following education benefits program at this time. Continuation of the current veterans' educational assistance program with "kickers;" continuation of the current Selected Reserve education program; and extension of the 1989 termination date for the current GI bill. I feel that this three-part proposal is the most viable and reasonable educational benefit program for the military and the Nation.

BONUS EXTENSION

The current combination of pay, training opportunities, targeted educational benefits and bonuses gives us an efficient, effective, and successful menu of recruiting and retention incentives.

We believe we should maintain the vitality of these programs for the foreseeable future. For this reason it is essential that our bonus authority be extended into fiscal year 1983. The administration has submitted legislation to the Congress which would extend current enlistment and reenlistment bonus authority for 5 years from its current expiration date of September 30, 1982.

In addition to extending the bonus authority, I also urge the committee to authorize a return to a lump-sum payment of the reenlistment bonus. Our analyses show that lump-sum payments yield a greater number of reenlistments and longer average obligated service lengths than the same nominal amount paid in some deferred fashion. I want to assure the committee that we will continue to apply bonuses only to skilled areas of our greatest manpower needs. For example, in the past 6 months there has been a net reduction or termination of 237 bonus multipliers.

CONTRACTING OUT AUTHORITY

Another issue of concern to the Department is our highly successful A-76 contracting out program. Through this program we have achieved annual savings of $84 million, made 12,000 military and civilian manpower authorizations available for mission-essential activities, and created many new jobs in the private sector. It is by far our most effective tool for realizing economies and efficiencies in our operations and for improving our readiness posture. I am vigorously opposed to any restrictions to the A-76 program and encourage the committee to stand firm in its support of our efforts.

PAY ADJUSTMENT MECHANISM

Last January I asked the services to decide on a military pay adjustment mechanism in lieu of the military/Federal Government civilian—GS—pay raise linkage. Their recommendation is that military pay raises should be linked to the employment cost index. As you know, the ECI measures changes in the rate of compensation of a standardized mix of labor services.

OTHER ISSUES

In closing I would like to address briefly some other areas of concern to the Department.

There is a need to extend the suspension of the strength ceiling for general and flag officers to October 1, 1983.

The Department supports a continuation of the aviation officer continuation pay program—but on a limited basis—as the most effective way.

The Department supports the fiscal year 1983 budget request for funding to enable us to raise the mileage allowance for military members.

The military service obligation for the Individual Ready Reserve should be extended from 6 to 8 years of service. In addition, we support a reenlistment and enlistment bonus for the Individual Ready Reserve.

Thank you, Mr. Chairman. I will be pleased to answer any questions.

Senator **Jepsen**. Thank you, Dr. Korb.

Your statement does not clearly state what size pay raise you favor for the fiscal year 1983. I presume you support 4 percent across the board?

Dr. **Korb**. As you know, Mr. Chairman, we put 8 percent in our budget. The first concurrent budget resolution had a 4-percent pay raise for both military and civilians, and we feel we can live with that this year. If we make it clear to our military members that they are being asked to sacrifice along with the rest of the Nation in these difficult economic times, this is something we can handle without hurting our recruiting and retention efforts.

Senator **Jepsen**. Well, the first concurrent resolution in the budget suggests three successive pay raises of 4 percent. Do you support those increases?

Dr. **Korb**. We do not support a cap on pay in 1984 and 1985, Mr. Chairman.

Senator **Jepsen**. What, specifically, do you anticipate proposing by way of a catch-up increase for that time?

Dr. **Korb**. At the present time we propose in the fiscal 1984 budget to submit a proposal that enables the military to keep pace with the cost of living in fiscal years 1984 and 1985.

Senator **Jepsen**. With the cost of living, as it is bouncing around now, at about a 4-percent level. Is that what you are going to come in with, then?

Dr. **Korb**. When we talk about comparability, as we did this year, we made an estimate of what comparability would entail. Our initial estimate was 8 percent. As you know, the employment cost index came in right at about 8 percent.

What we would do is this: During our budget scrub in December, when we go over the budget, we will make projections as to what the change would be for comparable wages in the private sector and include that money in our budget.

Senator **Jepsen**. I do not think any of us in this subcommittee like the idea of limiting military pay raises, but the Congress does face some budget limits that are going to be hard to meet.

Could we meet some of these limits by holding down military pay raises over the next few years and meeting any recruitment problems with larger bonuses; is that a possibility?

Dr. **Korb**. I think there are a couple of aspects to that question. First, you have the question of perception. As you well know, Mr. Chairman, and as I mention in my statement, it was this committee that took the lead in reversing the erosion of pay and benefits during the latter part of the 1970's. That erosion created real problems for us, particularly in the area of retention.

If we were to embark on a course like that again I think the perception on the part of military members would be almost, "Here we go again," and it would have important psychological effects.

Another aspect is that we expect the economy to improve in the next couple of years, and therefore there will be other opportunities available to people considering whether to come in or stay in the military service.

Our estimates are that if we had a 3-year cap, we would have to increase our recruiting goals by about 200,000 people—that is, to make up for the ones that we would lose because pay caps would be applied for 3 years.

Senator **Jepsen**. I have two more questions. Your statement opposes targeting any of the pay raise toward career personnel. Targeting would, however, increase the ratio of career to junior pay which some of us believe is important in retaining career personnel.

At the same time, analysis supplied by the Congressional Budget Office suggests that targeting this year's pay raise would not significantly harm Army recruiting, which you indicate is your main concern.

So, why do you oppose targeting?

Dr. **Korb**. For a number of reasons. First, we are asking people to make a sacrifice this year. We recognize that 4 percent is not enough to keep pace with the cost of living as measured by the various indexes. If we are asking people to make a sacrifice, it should be shared equally by everybody.

Second, if you target and, say, give somebody 6 percent, you have to give somebody 2 percent. You would be asking some members of the military to get smaller raises than those given to civil servants and those given to various segments of the retired community. We just do not think that is fair.

Our main problem as we see it right now is Army recruiting. We feel, as I mentioned in the statement, that the retention aspect can be handled more efficiently through the use of bonuses which not only get to the particular pay grades but to the particular skills.

We have a shortage of people—not in the aggregate but by specific skills—when it comes to the career force.

Senator **Jepsen**. Senator Exon?

Senator **Exon**. Thank you, Mr. Chairman.

Dr. Korb, welcome once again.

Dr. **Korb**. Thank you, Senator.

Senator **Exon**. We are always pleased to have you in front of our committee to discuss something that is of major concern to you in your major responsibility in the Department of Defense, and a major concern of this subcommittee.

First, I would like to quote from one sentence of a letter from the Secretary of Defense to Senator Tower, the chairman of the Senate Armed Services Committee, of which I received a copy. I think it is somewhat in line with the statements you just made.

I quote from the Secretary's letter of August 2:

> I realize, however, that in the interest of reducing the Federal budget deficit and getting the country back on the path of sustained economic growth, your committee may deem it necessary to call upon military personnel to make a short-term sacrifice and accept a raise of less than 8 percent.

Dr. Korb, the Secretary says, "your committee may deem it necessary." Does that indicate that the Secretary and you—who are representing him here today—think it is more the responsibility of this committee to make calls for sacrifice than the Secretary of Defense himself?

Dr. **Korb**. No, sir. I think what the Secretary wanted to indicate in that letter was that we had proposed—and indeed the funds are still in our budget—to pay 8 percent. He recognizes, however, that it is the administration that "proposes" and the Congress "disposes" and that you have the final authority in this area.

I think he would—and I would—say that this would be an action we would both agree on and we would take responsibility in telling our people we recognize we had a part in this particular situation because the President by endorsing the first concurrent budget resolution—in which this approach—implicitly said he accepted this.

Senator **Exon**. What you are saying then, the President endorsed the 4-percent cap. Therefore, you and the Secretary of Defense are now endorsing the 4-percent cap.

Dr. KORB. That is correct.

Senator EXON. Which is a change from your earlier recommendation of 8 percent.

Dr. KORB. As you know, our budget was formulated about a year ago this time. We did not anticipate the problems with the size of the Federal deficit, and we feel it is appropriate to ask the military members as well as civilians working for the Department of Defense and retirees—both civilian and military from the Department—to make this short-term sacrifice.

Senator EXON. Dr. Korb, you testified earlier on a question from the chairman that you did not anticipate that we would continue with any kind of a 4-percent cap in the out years. So, I think that question was satisfactorily answered.

Are you advocating or talking about compensating our military people in some form of a catchup in the out years? In other words, 4 percent this year and 8, 10, 12 next year, going back to the comparability formula. Are you considering or thinking about a catchup extra increase in the future to make up for what the 4-percent limit would do for next year?

Dr. KORB. At this time we are not. We basically feel it would be unrealistic to come back to the Congress next year and ask, say, for a 12-percent raise when civilians are still capped at 4 percent.

Senator EXON. Dr. Korb, I would like to go a little bit into the bonuses and how they are or are not handled properly. As you know, I had the GAO look into the way the Navy managed the aviation officers' continuation bonus and they came up with some rather disturbing conclusions.

The GAO found that instead of selectively targeting this bonus, as Congress had intended, the Navy and the Marine Corps paid the bonuses to all aviators, pilots, and naval officers who were eligible. The Navy paid the bonuses to all eligible NFO's even though their own figures show little or no shortages of NFO's.

The Marine Corps committed $25 million for this bonus in fiscal year 1981, even though the Marine Corps' own figures show an excess of both pilots and NFO's for the grades and years of service for which the bonus is authorized and was paid.

The GAO also concluded that if the aviation bonus had been selectively targeted to critical aviation shortages, as Congress had intended, that the commitments of this bonus for fiscal year 1981 would have been about $82 million less than the $103 million which evidently will now be paid out.

Dr. Korb, you said earlier this morning that the Defense Department supports continuation of this bonus "on a limited basis."

Now, my question is, what do you mean by, "on a limited basis?" Do you mean by that that the GAO study which I requested is on target with regard to some of the criticism of the way this money was employed?

Dr. KORB. Senator, the Navy has not submitted the formal legislation to have the bonus in 1983. It has submitted to my office within the last week a request to go forward, and I sent it back, basically telling them they ought to take into account the criticisms that you just made before they come up with their proposal to do it.

I meant that all of our bonus programs—officer and enlisted—should constantly be reviewed to make sure they deal only with situations as intended by Congress—namely, to deal with specific shortages. Right now the Navy has yet to come back to tell me how it will accommodate the concerns that you have laid down.

Let me assure you that I am as concerned about this as you are.

Senator **Exon**. Secretary Lehman said recently that if he were faced with the choice of paying a bonus only to pilots and not to NFO's, in other words, targeting the bonus, or losing the bonus altogether, that he would cancel the bonus for all the aviators.

Dr. Korb, do you share Secretary Lehman's "all or nothing" attitude on the bonus?

Dr. **Korb**. My basic philosophy about bonuses is that bonuses ought to be used to deal with specific shortage problems that occur for any number of reasons, including what is going on in the private sector—a situation we had, for example, last year when our air controllers obviously would have had a great temptation to leave the service.

Once that situation goes away, for whatever reason, the bonus should no longer be paid.

We have to be very careful that people do not internalize the bonus and assume that is part of their basic pay or pay it for other reasons—say, matters of equity. That is how I feel about it.

I guess essentially that if you have a shortage in one area, you want to pay it. I guess the converse would be true if we had a shortage of navigators and not a shortage of pilots. My philosophy would be to deal with the situation where you have the shortage.

Senator **Exon**. Dr. Korb, as you know there was no money requested in the fiscal year 1983 budget to continue the Aviation Bonus. If it is to be reauthorized, where will the Navy and the Marine Corps find the money to pay for the bonus and what do you expect, if that is done, it will cost in fiscal year 1983?

Dr. **Korb**. Right now they have to come up, as I mentioned to you, with the criteria which they will use. After that we will know what the costs will be. Then we will have to find out if they can be absorbed or reprogramed or whether a supplemental will be necessary. I do not know the specific answer right now because we do not know what our level for 1983 is going to be.

Senator **Exon**. Doctor, I thank you.

Mr. Chairman, I have some further questions that, if time will allow in the second round, I would like to pursue. But I will yield at this time.

Senator **Jepsen**. Thank you, Senator Exon.

Excuse me, Senator Denton, in order to clarify something while it is still fresh, may I inject just one question here before the transition over to you?

Senator **Denton**. Certainly, sir.

Senator **Jepsen**. There seems to be a difference of opinion, or different signals when we talk about targeting, catch-up, and so on.

Dr. Korb, the Army Times reported on July 5 that the Army and the Navy support targeting a raise to career enlisted personnel and officers, with no pay increase for those in the ranks of E-1 to E-3. Is that report an accurate reflection of the Army's and Navy's position?

Dr. **Korb**. All I can tell you, Mr. Chairman, is the Department position is made after consulting all four services. The Department position is that this year we support an across-the-board raise.

Senator **Jepsen**. Now, Dr. Korb, it has also been reported that Defense Secretary Weinberger has agreed to support a catch-up raise for the service personnel in 1983, contrary to what you just indicated. According to the report, Secretary Weinberger has suggested the services should pay for a catch-up raise next year and a full comparability pay raise in 1984 by shifting money from other accounts. Is that report true?

Dr. **Korb**. The Secretary's position on this is that it would be unrealistic at this time to propose a catch-up raise next year. That is the departmental position.

Senator **Jepsen**. In other words, it is not true. I am not debating it with you.

Dr. **Korb**. As far as I know, it is not true.

Senator **Jepsen**. The headlines say, "Weinberger will support a catch-up raise in 1983," they have quotes, and you say it is not true. That is all I wanted to know.

Dr. **Korb**. At this time that is not his position.

Senator **Jepsen**. All right.

Senator Denton?

Senator **Denton**. Thank you, Mr. Chairman. Good morning, Mr. Secretary.

Among the relevant issues to be addressed in the fiscal year 1983 Omnibus Personnel bill is the role that our Reserve forces can play with respect to achieving favorable outcomes in international crisis management.

This subcommittee will consider the ability of the President to prepare adequately against an unforeseen imminent threat to our national security in instances where, for a variety of reasons, a declaration of national emergency would be considered inadvisable—for example, premature or provocative.

Currently, the President's military authority in such circumstances is limited to the callup of 100,000 Selected Reserves for a period not to exceed 90 days.

Many of our military planners perceive this existing authority as hollow for a number of reasons. In essence, all the existing authority manages to accomplish over 90 days is the replacement of those on active duty who have reached the end of their obligated service.

Further, the 90-day deadline constrains the President to a degree that renders the authority unworkable in the sense of being useful in crisis management.

This subcommittee proposes to increase that time period to 180 days for the callup and to provide the President with a stop-loss authority that allows for the emergency retention of critical-skill personnel during that same time period.

The purpose of the proposal is to allow the President to bring credible influence to bear on a crisis situation before combat occurs or becomes necessary. A 90-day deadline forces the President's hand at a time when diplomatic initiatives, combined with a demonstration of will—if I may say so, with a demonstration of fact of forces in being on the scene—may well serve to defuse the crisis, thereby obviating the need for the introduction of forces or a declaration of national emergency.

When I say "on the scene" I mean "potentially on the scene" in that they are at least available, actually in existence, and capable of being transported to the scene in a timeframe that would be relevant to the resolution of the crisis.

If such initiatives fail, however, the proposed increase in executive authority will assist greatly in preserving U.S. interests by allowing for early and decisive reinforcement of friendly forces before a conflict escalates or is resolved unfavorably in a precombat or combat stage.

Mr. Secretary, does the Department of Defense support the inclusion of this proposal in the fiscal year 1983 Omnibus Personnel bill?

Dr. **Korb**. Senator, as the Secretary indicated in a letter to the subcommittee chairman, Senator Jepsen, we do support the extended availability of National Guardsmen and Reservists activated under Presidential callup from the current 90 days to 180 days, and a statement of national commitment embodied in a declaration of national emergency and mobilization can be considered within 30 days of a callup to provide requisite resources to respond successfully to the contingency that occasioned the callup.

Senator **Denton**. That does correspond.

Mr. Secretary, the Department of Defense has reported:

> Full acceptance and support of the total force policy by the Active and Reserve forces alike depend on their belief that the Reserves are a reliable force that will be available in emergencies. If our total force has the flexibility to deploy rapidly in a crisis situation we can reduce the chance of that force ever being needed for combat and can assure ourselves of a better outcome if it is.

That is in the discussion of total force policy by the Department of Defense.

Mr. Secretary, do you believe that this proposed increase in executive mobilization authority would enhance the role of the Reserve force in that context of total force policy?

Mr. **Korb**. Yes, I do, Senator.

Senator **Denton**. Will this authority assist our military planners to the extent of alleviating the need for—I think there is a go word for it now, I am going to call it double dipping—the computerized deployment of a unit to serve in more than one conflict area simultaneously?

Dr. **Korb**. Yes, I believe it will.

Senator **Denton**. Thank you very much, Mr. Secretary.

I have, Mr. Chairman, something for the record. As you know, in July of last year I introduced S. 1574, the Executive Mobilization Authority Act. That bill, cosponsored by seven other members of the Armed Services Committee, includes both the stop-loss provision and the time extension that we have addressed today. The Secretary of Defense has endorsed that legislation.

I would like to submit for the record a letter dated March 4, 1982, to the Secretary of Defense, signed by five members of this subcommittee, requesting a Defense Department position on S. 1574.

I would also like to submit for the record the Secretary's response, endorsing both the spirit and substance of that legislation.

[The information follows:]

UNITED STATES SENATE,
COMMITTEE ON ARMED SERVICES,
Washington, D.C., March 4, 1982.

Hon. CASPAR WEINBERGER,
Secretary, Department of Defense,
Washington, D.C.

DEAR MR. SECRETARY: As members of the Senate Subcommittee on Manpower and Personnel, and as original co-sponsors of S. 1574, the Executive Mobilization Act, we are writing to inform you of our intention to consider S. 1574 during the fiscal year 1983 Authorization process with a view toward incorporating appropriate legislative language in the fiscal year 1983 Defense Authorization bill.

In testimony before the Armed Services Committee on 4 March 1981, you stated, with respect to the Middle East: "Today, we are borrowing from strained resources to maintain any presence there at all. Our ability to project force into the region is inadequate and, unfortunately, dependent on our willingness to reduce our strength on other fronts so as to respond to a major challenge there." In outlining the Department of Defense budget request for FY '83, you again spoke forcefully on the need to enhance both our power projection capabilities and preparation for mobilization. Additional testimony has revealed that JSOP guidelines must still rely upon "double-dipping", the scheduled deployment of a unit to more than one mission area. All recent briefings received by the committee indicate that force projection inadequacies remain a most serious problem.

We concur with the assessment that the current inability to project sufficient force as a timely response to a threat reduces the options available to the President in a crisis and seriously undermines our national security.

We believe the Executive Mobilization Act is an effective remedy that would enhance our national security and give meaning to the Total Force Policy. A Department of Defense report on the Total Force underscores the importance of S. 1574: "* * * full acceptance and support of the Total Force Policy by the active and reserve forces alike depend on their belief that the Reserves are a reliable force that will be available in emergencies. Finally, if our Total Force has the flexibility to deploy rapidly in a crisis situation, we can reduce the chance of that force ever being needed for combat and can assure ourselves of a better outcome if it is."

We will address this issue during the Reserve Manpower hearings tentatively scheduled for mid-March. We trust that appropriate Defense Department officials will, by that time, be able to present a considered and definitive Department position, and that it will be consistent with the intent of S. 1574.

Knowing of your strong, personal commitment to effective measures to assure the national security, we look forward to your views and cooperation on this critical issue.

Sincerely,

ROGER JEPSEN.
JEREMIAH DENTON.
DAN QUAYLE.
SAM NUNN.
HARRY BYRD.

THE SECRETARY OF DEFENSE,
Washington, D.C., April 26, 1982.

Hon. JEREMIAH DENTON,
Committee on Armed Services, U.S. Senate, Washington, D.C.

DEAR SENATOR: I want to thank you and the other members of the Senate Subcommittee on Manpower and Personnel who cosponsored S. 1574, the Executive Mobilization Act, for your interest and support of our efforts to improve our national security posture.

The increased authority embodied in S. 1574 would provide greater flexibility in terms of numbers and duration than current authority. The recent increase from 50,000 to 100,000 was a substantial improvement, which has already been incorporated into current joint operational, mobilization, and exercise planning.

To increase flexibility further, the Department of Defense recommends that appropriate language be incorporated into S. 1574 providing for:

a. Recognition of the need for Congressional authorization to provide additional funds concurrent with the call-up to meet the unprogramed costs associated with the specific crisis which necessitated the call-up;

b. Extended availability of National Guardsmen and reservists activated under Presidential call-up from the current 90 days to 180 days; and,

c. A statement of national commitment, embodied in a declaration of national emergency and mobilization, to be considered within 30 days of call-up to provide requisite resources to respond successfully to the contingency that occasioned the call-up.

The Department of Defense supports enactment of S. 1574 amended to reflect these provisions, and deeply appreciates your past and continued support in improving our national defense capabilities.

Sincerely,

CAP.

Senator DENTON. Thank you, Mr. Secretary. Thank you, Mr. Chairman.

Senator JEPSEN. Thank you, Senator.

Dr. Korb, as you know, there has been a lot of publicity lately about two studies which have been released. One suggested there are too many blacks in the military, the other that we ought to begin preparing for a return to the draft. Have you read those reports?

Dr. KORB. I certainly have.

Senator JEPSEN. Well, other than a report quoting General Max Thurman, I have not seen much in the way of rebuttal from the Pentagon. What do you plan to do about those studies?

Dr. KORB. Let me make a couple of comments. I do not believe the Brookings study "Blacks in the Military" said there were too many blacks. It talked about how many blacks there are in the military and it raised certain questions about it.

General Thurman, in responding as the Army personnel chief—since the Army has the largest percentage—in effect said that as far as the Army is concerned this does not raise any problems for the Army.

I myself have debated Mr. Binkin on television and, if I do say so myself, I think we came out reasonably well.

In terms of the Atlantic Council's study about the fact that we need a national commission to study the question of going back to the draft and also certain recommendations—certain triggering mechanisms—you will notice in that report that I commented on it and dissented vigorously. I would say there are probably about 40 footnotes referencing my specific objections to specific things in the report.

Senator JEPSEN. So, you have prepared analyses of the findings and you do not agree with their conclusions?

Dr. KORB. That is correct. With the Brookings report "Blacks in the Military" we have no question with the data. In fact, the data is contained in all our releases. The Brookings study suggests at the end that this raises certain questions. We disagree. There is a concern, for example, that the percentage of blacks in the military may limit the President's willingness to use military forces in certain circumstances. We do not believe that is a problem and it does not need to be studied.

Senator JEPSEN. Well, there are some extremely negative characterizations of today's troops contained in some of these findings. Do you have any plans to either refute that or to somehow publicly communicate otherwise?

Dr. **Korb**. Regarding the Atlantic Council study I addressed the people at the Atlantic Council. I refuted all of the draft and expressed my feelings on their findings.

What we essentially objected to in the Atlantic Council study was that they were using data and impressions of the military that were true a couple of years ago but because of a lot of the actions taken by this committee, the Congress, and the administration we feel that picture has turned around and right now our quality is better than it has ever been. In fact, better than it was under most years under conscription.

Senator **Jepsen**. Senator Exon?

Senator **Exon**. Mr. Chairman, I think we want to wind down for a vote. There are several other questions that I would like to put at this time. If we run out of time, Dr. Korb, I just wish that you would be good enough to supply them for the record because I think it is important that we try to proceed.

First, can you give us a recommendation on how to reauthorize a Navy aviation bonus before we mark up the pay bill? The bonus authority, as I understand it, expires on September 30 of this year. So, we need that as quickly as possible as to what your recommendations are. Could you supply that for the record? Unless you have the answer now.

Dr. **Korb**. No, I do not. As I said, we sent the Navy back to consider the criticisms that you made.

Senator **Exon**. Dr. Korb, the fiscal year 1983 budget request includes anticipated savings of approximately $100 million for fiscal year 1983 in military retired pay. What changes are you proposing? Could you answer that for the record?

Dr. **Korb**. Yes, I will, sir.

Senator **Exon**. Or could you answer that quickly now?

Dr. **Korb**. Essentially what it foresees is the legislation that was proposed this year—to bring down people who are retired, making more than people on active duty if they retired today. Retired people not getting raises larger than the raises that people on active duty get. Eliminating the 1-year look-back provision. These have all been contained in legislation which has been submitted to the Congress for Government-wide pensions this year.

Senator **Exon**. You might cover that, if you could.

Dr. **Korb**. I certainly will.

Senator **Exon**. Also, are these changes being made to the military retired pay only?

Dr. **Korb**. No, sir.

Senator **Exon**. Or is the administration proposing the changes for all Federal retiree programs?

Dr. **Korb**. All Federal retirees.

Senator **Exon**. Thank you.

I gather that for all or most all of the additional Assistant Secretary positions that have now come up once again, that the individuals who will fill these jobs are already working in the Defense Department. Is that the case?

Dr. **Korb**. Yes, sir.

Senator **Exon**. If that is the case, then what difference does the title make? For example, what will the person who is now serving as principal Deputy Under Secretary of Defense for Research and

Engineering be able to do as Assistant Secretary of Defense for Research and Engineering that he cannot do now?

Dr. **Korb**. I think there are a couple of questions implied in your question.

First, it is not just for the present incumbents. As you know, the average tenure of people in those jobs is about 20 months. This legislation would stay on, and it would help us to attract higher quality people.

I think the people that were attracted into these particular positions knew that we would propose this legislation and this is one of the reasons why these high-caliber people were attracted.

The other thing to keep in mind is that in the Department of Defense, given the fact that we have military ranks and civilian ranks and our protocol and, if I can say, "seats at the table" depending upon your rank, it does enhance the ability of a particular function when you have a title to get the job done. This in no way implies that the individuals are not effective in their positions, but I think you have to look at them in the long term as well as the immediate term.

Senator **Exon**. Will these new positions, if agreed to, qualify these individuals to those limousines that Senator Proxmire is always complaining about? [Laughter.]

Dr. **Korb**. As you know, under Secretary of Defense Rumsfeld the use of limousines was severely curtailed. The only people who have full-time limousines are the Secretary, the Deputy, the Service Secretaries and the Under Secretaries. The rest of the people can call the motor pool and, if one is available, they can use it. So it will not really change that very much at all.

Senator **Exon**. In other words, these positions, if created, would not change the availability of limousines to the people involved.

Dr. **Korb**. Not significantly. It might mean that they might be able to bump somebody like me to get the limousine.

Senator **Exon**. Then I assume you do not support it? [Laughter.]

Dr. **Korb**. No, I do support it. I have been bumped a number of times already. [Laughter.]

Senator **Exon**. Well, I think there are some great concerns in that whole area. But if you will supply answers to those questions that I posed that you have not had a chance to answer, I sure would appreciate it.

Dr. **Korb**. Yes.

Senator **Exon**. Thank you, Mr. Chairman.

Senator **Jepsen**. There will be questions submitted for the record and I would ask that you reply to them.

Do you have any closing remarks?

Dr. **Korb**. Again, since I did not emphasize it in my statement and Senator Exon got to it at the end, this is a very important bill for the Department. This involves Assistant Secretaries both at the OSD level and at the Service level, and it would really help us to manage the Department better and to attract higher-quality people both now and in the future.

Senator **Exon**. Let me just say in conclusion, Mr. Chairman, that it must be very important because whenever we come up with Assistant Secretaries and whenever we come up with flag and general officer matters, I receive some of the few calls I ever receive from very "high-ups" in the Department. So, this must be a critical matter as far as national defense is concerned. [Laughter.]

Thank you very much.

[Questions with answers supplied follow:]

QUESTIONS SUBMITTED BY SENATOR ROGER W. JEPSEN

MANPOWER GOALS

Senator JEPSEN. Your statement, Dr. Korb, indicates that your "manpower goals are ambitious." Could you share these goals with the Subcommittee? Specifically, what are the goals for career personnel in each of the Services over the next five years? What are the Services' goals for recruit quality? Without these goals, it is difficult to know what pattern of pay raises would best meet your ambitions.

Dr. KORB. The existing career force objective goals for each of the Services are shown below:

OBJECTIVE FORCE GOAL COMPARISON

	Army	Navy	USMC	USAF
Over 4 years of service	282,058	258,229	55,429	240,000
Percent over 4 years of service	41.5	49.13	30.6	48.0
End strength range (thousands)	665–695	510–540	166–196	475–525

This objective force structure is a goal toward which the service is moving over time. The objective force structure is not tied to a particular budget year but is tied to the enlisted end-strength range shown.

These objective structures will change as any of the elements of enlisted management on which the structure is based, including projected enlisted end-strengths, change. The Services will revise their structure as needed to reflect the dynamics and changes of the 1980s.

Two measures of quality are the proportion of new enlistees who are high school diploma graduates and the percent of recruits who score average or above on the DOD enlistment test. The following table shows the Services' average goals for these two indices over the next five years.

AVERAGE QUALITY GOALS FOR ACTIVE NPS ENLISTMENTS, FISCAL YEAR 1983–1987

[In percent]

Service	High school diploma graduates	Individuals scoring average or above
Army	82	83
Navy	75	89
Marine Corps	81	85
Air Force [1]	88	92

[1] The Air Force does not have specific goals. The percentages shown are the minimum expected results.

TARGETING

Senator JEPSEN. From your testimony, as well as previous statements you have made, it seems clear that the Department of Defense continues to support the uniform across-the-board annual pay raise for all military personnel. You apparently take this position on the premise that it upholds the principle of pay comparability with the private sector. Yet there is considerable evidence that both the size and rate of increase in pay varies substantially when relevant segments of the employed population are compared. For example, according to data from the current population survey, historical rates of growth for the younger and less experienced male full-time workers aged 16 to 19 has lagged behind the average rate of increase for full-time employed males aged 25 and over. During the period 1971 through 1976, the pattern appears to have reversed itself with more rapid increases in youth wages compared to older workers during the period 1977 through 1981. A more rapid increase in youth wages may have been triggered by legislated increases in the minimum wage for which no further increases are contemplated. At a minimum, wouldn't it appear to make sense to propose differential raises between recruits and career personnel to better conform to the principle of comparability with the private sector? Will such an approach be incorporated in any legislated changes you may propose regarding a mechanism for setting pay raises?

Dr. **Korb.** My support for an across-the-board pay raise for all military personnel is not based on the principle of pay comparability with the private sector. A military pay raise of approximately 8 percent would be required to match private sector wage growth over the past year, not the 4 percent that it appears military personnel will be receiving. Rather, the reasons we support an across-the-board raise are those covered in my testimony and in the letter from Secretary Weinberger to Senator Tower. These are: military personnel are already giving up four percent of their increase. It would be unfair to cut further into certain members' pay raise to target it to someone else; Federal civilians and retirees, both military and civilian, will also receive a four percent pay increase under the budget resolution. No active military member should receive a pay raise less than that given to those populations; substantial targeting was made in last year's military pay increase from junior enlisted to senior enlisted. In the absence of a compelling reason to do so, further targeting should not be made from junior enlisted pay; our analysis indicates that the most significant manpower problem over the next few years will be in recruiting. For this reason, it would be a mistake to target away from junior enlisted pay.

I agree that it is desirable to have the capability to provide differential pay raises by grade and years of service. As you know, we have this discretionary authority under current law. Though we have not arrived at a final position regarding a proposed new military pay adjustment mechanism, I would expect that, at a minimum, the present discretionary reallocation authority would be part of that proposal.

EDUCATIONAL BENEFITS

Senator **Jepsen.** Your statement strongly opposes coupling improved educational benefits with no pay raise for recruits because (1) the pay freeze does not offset the added costs of educational benefits and (2) the educational benefits are not targeted on critical skills. This subcommittee has investigated an option that may meet some of these problems. The option combines a "stripped-down" and less costly version of H.R. 1400, coupled with a pay freeze on first-year pay for the next three years. Such a pay freeze would pay for much of the cost of the stripped-down H.R. 1400. Moreover, analysis supplied by CBO suggests that there would only be a minor degradation in Army recruiting under this approach because the Army would get large kickers. Since it seems to meet many of your objections, would you consider supporting such a plan?

Dr. **Korb.** The Department believes that the CBO analysis suggests that increasing first-term pay is a more efficient means of affecting the supply of high quality recruits than are educational benefits. The CBO results, which support this conclusion, were obtained by assuming both that recruits respond relatively conservatively to pay and that the stripped-down version of H.R. 1400 will have no adverse effect on first-term enlisted retention. When a somewhat greater responsiveness to pay is assumed (consistent with recent research), and some adverse effect on first-term reenlistments is incorporated into the analysis, the comparison becomes more favorable to increasing first-term pay. While we might dispute the magnitudes of the effects computed by CBO for the educational benefit plan, the qualitative conclusion—that it would be less effective than increasing first-term pay—seems to be consistent with our objections to a new, across-the-board educational benefit. The results suggest that an educational benefit program that has the same effect on force manning as pay will cost somewhat more than the pay raise option.

Senator **Jepsen.** Providing improved educational benefits in lieu of recruit pay raises would move to a pay system emphasizing educational benefits. Some of us feel that would attract more college-bound youth into the military. Do you agree? If so, wouldn't such a step be worth some modest added costs or modest decline in the numbers of non-college-bound high school graduates that now enter in large numbers and keep up our recruiting statistics?

Dr. **Korb.** Some believe that there are two classes of higher quality potential recruits—"college-bound" and "non-college-bound"—and that the former responds only to educational benefits while the latter responds only to pay. While this may be true at the extremes, the population of higher quality recruits that is most likely to be influenced with changes in pay or other benefits is that which is "on the margin" as between pursuing a civilian job, entering college or joining the military services. From the perspective of force manning, the pay and benefit package offered to high quality recruits should be the one that attracts all additional high quality recruits most efficiently.

One of the implications of much of the analysis that has been done on educational benefits is that educational benefits provide a strong incentive for higher quality recruits to leave military service at the first opportunity in order to pursue college. However, many of these same recruits that would be attracted by educational benefits would also be attracted by additional pay which would not provide an incentive to leave the service. The difference between having cash, which can be used to purchase anything including education, and an educational benefit which can be used only for education, may make the difference between staying in military service beyond the first enlistment or leaving to enter college. In this view, whether a potential recruit is "college-bound" or not depends, to an extent, upon the compensation package that is offered. The pay package preferred on the basis of force manning is the one which can attract and retain the recruit at lowest cost.

Senator JEPSEN. The current military educational benefits plan is really an Army plan. Few participate in the other Services because of the high contribution. Only the large "kickers" make the plan of interest to Army people. Do you see any merit to providing all military personnel with some form of educational benefits? If so, what sort of plan could you support?

Dr. KORB. The Department believes that the current contributory educational benefits program, VEAP, with the supplementary kickers, is the best educational program for military personnel. All members on active duty may participate in this program. Reserve members in specific skills are eligible for noncontributory educational benefits under a separate program. The Army is the only Service to request the authority to pay the additional benefits, or kickers, to its members. The other Services may request this same authority whenever they believe such additional benefits are needed.

Senator JEPSEN. Let me assume for a moment that the Congress decides to enact some form of educational benefits for all military personnel. How then should we pay for such a plan? Simply add it to DOD costs and cut back on weapons buys? Or should we consider capping recruit pay?

Dr. KORB. The Department believes that it should fund any new educational benefits program because such benefits are likely to be used as enlistment/retention incentives by the Services. When presented the option to budget for an educational benefit program of their choice, each Service decided that such new benefits would not prove as beneficial as current programs for recruiting and retention.

Senator JEPSEN. On April 30 the Department of Defense forwarded to the Congress a proposal to make several significant changes to the military retirement system. These proposed changes would: eliminate the 1-year "look back" provision; establish a new retired pay adjustment mechanism which would annually increase retirees' pay by the lesser of (1) the percentage increase in the Consumer Price Index (CPI) or (2) the active duty pay increase; establish a so called reverse-recomputation mechanism to limit the amounts of future retired pay adjustments so that eventually retired pay would not exceed the amount of retired pay the member would otherwise be entitled to if computed on the most recent active duty pay scale, and provide that monthly retired pay be rounded down to the next whole dollar amount.

The GAO is also recommending that the 1-year "look-back" provision be revoked because it has outlived its usefulness and is no longer justified. They point out that the members who benefit the most from this provision are those who retire right at 20 years of service. This is because the services permit new retirees to "look back" to the previous pay scale in effect before they were eligible to retire, but at their current grade and longevity step. GAO says that under some conditions this can in fact discourage people from serving longer than 20 years. I presume that since eliminating this provision was part of your April 30 proposal, you see eye-to-eye with GAO on this issue. Is that correct?

Dr. KORB. The GAO and the Department of Defense have both reached the same conclusion; however, we arrived at that conclusion based on different rationale. The one-year look back provision at section 1401a of title 10, United States Code, only becomes operative when active duty pay raises fall lower than the percentage in the Consumer Price Index. If active duty basic pay raises are equal to or greater than percentage increases in costs of living, the one-year look back is not used. For the past two years active duty pay raise percentages have been larger than those applicable to retired pay. In other words, wage growth has been equal to or greater than the inflation rate. We expect this trend to continue. Assuming it does, the one-year look back provision becomes a moot section of law. Based on this rationale, we believe it appropriate to repeal that feature of the law.

Senator **Jepsen**. Dr. Korb, I do have some concern about the long-term impact of the two proposals which would change the retired pay cost-of-living adjustment mechanism—the lower-of-the-CPI or active duty pay raise proposal and the so-called reverse recomputation proposal. My concern is both with members already retired and with those still on active duty.

Do you see these two proposals as a backing away from commitment made to military members that their pensions would be fully protected against inflation? Since this would involve a substantive departure from current public policy, would you please give us the Department's views on the appropriateness of existing public policy, particularly the appropriateness of fully protecting one segment of our society against the ravages of inflation, while the working segment—in this case the active duty members—is not so protected?

Dr. **Korb**. We do not view these proposals as a departure from current public policy, nor should it be viewed as a departure from the government's commitment to retired members. By way of background, military retired pay is automatically adjusted on March 1 of each year by the same percentage that is applied to pensions of retired civil servants. That percentage is determined in direct relationship to the percentage increase in the Consumer Price Index that occurred during the preceding December through December. By contrast, the percentage of an active duty pay increase is determined by the percentage increase applicable to federal civilian employees, or by a different percentage provided by separate enabling legislation. The mechanism for active duty pay is intended to keep active duty pay reasonably competitive with wages in the federal sector. The Administration's proposals on retired pay adjustments are based on the assumption that wage growth will be equal to or greater than inflationary trends. As this occurs, retired pay would be adjusted by percentage increases in the Consumer Price Index and would continue to protect members from inflationary trends.

Senator **Jepsen**. A concern I have with the proposal to limit the retired pay adjustment to the lower of the CPI or the active duty pay increase is that over time this could have a rather substantial downward ratcheting effect with no provision for retirees ever to catch up. Does the Department view this as a potential problem, and what do your projections show with regard to how this will affect the life-stream benefits of someone retiring today and someone retiring five years from now?

Dr. **Korb**. The Administration's economic assumptions indicate that the growth in active duty pay will not be lower than Consumer Price Index trends. As a consequence, there would be no downward effect in retired pay. Rather, retired pay would remain responsive to cost-of-living changes as measured by the Consumer Price Index. Life-stream benefits would also remain protected from inflationary growth.

Senator **Jepsen**. If the life-stream benefits of future retirees will be substantially reduced, what do your calculations show as to the potential retention problem this change in retirement systems may create? If the retired pay life-stream benefits are cut as a result of your proposals (and they will be) what do your econometric models predict with regard to needed increases in "up front" money (active duty pay) to offset the manpower losses which could occur by reducing the downstream benefits? Dr. Korb, would you please provide for the record the results of this tradeoff analysis.

Dr. **Korb**. The Administration's economic assumptions do not indicate a substantial reduction in life-stream benefits. Consequently, these proposals are not projected to have an impact on retention since active duty pay increases—what we refer to as wage growth—are not expected to be less than the rates of change in the economy as measured by the Consumer Price Index. With this economic scenario, the situation to which you referred will not occur since retired pay adjustments would continue to be made in relation to the percentage changes in the Consumer Price Index.

SRB PAYMENT METHOD

Senator **Jepsen**. Dr. Korb, as you know, on June 8, 1982, the Defense Audit Service issued a report on the enlisted bonus programs. I am sure that you have read this report, but let me just briefly summarize a key paragraph from it. The report points out that an estimated $69 million in bonuses will be paid to persons reenlisting in fiscal years 1978 through 1982 who will separate prematurely, and that another $4 million has been lost to bonus recipients who served out-of-skill for more than 180 days.

The report contained several good recommendations, but the key one, with which you disagreed, was that a modified lump-sum method of paying SRB's be adopted. This would reduce the risk of the military services paying bonuses for something they may end up not receiving. The Audit Service recommended that a portion of the bonus be paid in a lump-sum when the contract is signed, and that the remainder be paid monthly as proficiency pay. This is somewhat similar to the way the Congress directed you the pay SRB's starting in October 1981—a method you also opposed—but with one key difference. That is, by using a monthly proficiency-type pay the services could more easily terminate payments if the individual leaves the service early.

I know that you folks have argued that large lump-sum bonuses are more effective than partial payments. You point to pay elasticities, guess at discount rates which enlisted people might use in making a decision on reenlistment, and use other econometric modeling, little of which is based on empirical data, to support your argument.

Now that you have had nearly a year's worth of experience with the partial payment method, what does your actual experience show concerning which payment method is the most economical? Notice that I use the word "economical" not "effective."

It can almost be taken for granted that the more money you pay the more people you will reenlist—that is one definition of effectiveness. What I want to know is which payment method is more economical. Would you please provide this data for the record? If your empirical data shows that the partial payment method is more economical than the lump-sum method, what further objections would you have to adopting the Audit Service recommendation?

Dr. Korb. Lump-sum payments of bonus amounts are more economical because they yield a greater number of reenlistments and longer average obligated service than the same bonus amount paid in some deferred fashion. This preference for lump-sum payment is supported by empirical research which was discussed in the May 1, 1982 Report on the Selective Reenlistment Bonus. As additional data becomes available (we will not have a full year of data until January 1983), we will continue empirical analysis of this issue. Empirical research to date shows that even when costs of collection of unfulfilled service obligations are considered, the lump-sum method. We have no serious objection to the Audit Service recommendation other than the fact that it is not the most economical method of payment.

FIVE-YEAR SRB AND EB EXTENSION

Senator Jepsen. The Department has requested that we extend the authority to pay selective enlistment and reenlistment bonuses for another five years, to September 30, 1987. In your justification letter you state that "the Department has in the past and plans in the future to use the bonus authorities only when cost-effectiveness is demonstrated and less costly options have been fully explored and exhausted." This is indeed how we have always intended that you use these bonuses. They should be used only as a last resort after it is clearly shown for each skill that bonuses are a more economical means of improving recruitment or retention than any other alternative.

Dr. Korb, DOD-wide, how many reenlistments do you expect during fiscal year 1982 and how many of these reenlistments will receive a reenlistment bonus? (There will be about 192,000 reenlistments and 87,000 will get a bonus.)

This indicates a ratio of about one bonus for every two reenlistments. Is this, in your view a selective use of the bonus authority?

Dr. Korb. Despite the expanded application of the SRB, we continue to carefully monitor its use to insure that the selective aspect of the program is maintained. SRB reenlistees are vital to our efforts in solving chronic shortages and imbalances in critical skills. The usefulness of SRB as an incentive has become increasingly important as the Services increase the size of the career force and work to redistribute career personnel from imbalanced into shortage skills. In order to insure that selectivity is maintained, bonus skills are given a thorough review at least twice annually and adjustments made as manning or retention conditions dictate. For example, during a five-month period between Dec. 1981 and April 1982, comprehensive reviews resulted in a net reduction in bonus levels for 237 skills.

ACTIONS TAKEN TO REDUCE SHORTAGES

Senator JEPSEN. Your May 10, 1982 request to extend the bonus programs said that you have in the past used bonuses only after less costly options were fully explored. Would you tell us what other options you have explored and how they compare to bonuses from a cost-effectiveness standpoint? Please provide this cost comparison data for the record.

Dr. KORB. All of the Services have programs underway, in addition to compensation initiatives and reenlistment bonuses, to reduce shortages or eliminate imbalances. Each Service is implementing a set of programs that will help solve particular manning problems. The Army has implemented a force alignment plan to improve skill match. The Army is making changes in promotion policies, reclassification policy, reenlistment policy and prior service enlistment policy. The Navy is pursuing several noncompensation management actions to address the skill shortage problems. Among these actions are increased emphasis on recruitment of prior service naval personnel, lateral entry programs, promotion planning based on individual rating manning levels, tightened reenlistment controls, and training plans geared toward ratings with current or projected shortfalls. The Marine Corps is also employing personnel management measures to balance its inventory with requirements. The Air Force's program to address skill imbalances was very favorably reviewed by the GAO in a Letter Report to this Subcommittee on April 19, 1982. It was emphasized in that report that monetary incentives are an essential ingredient which must be used in conjunction with other management initiatives in resolving shortages. Since these management options are employed in various combinations within and among the services, it is not possible for us to accurately isolate the cost effectiveness of each. The bottom line is that bonus programs are applied only when these initiatives by themselves do not produce the degree of retention in a particular skill we believe necessary to adequately offset manning deficits.

ALTERNATIVES FOR MEETING MANPOWER NEEDS

Senator JEPSEN. Has your exploration of less costly alternatives for meeting your manpower requirements included looking at things such as lateral placements programs; applying more resources to recuiting and advertising, particularly in economically depressed areas; or, doing something as simple as making total military pay—particularly disposable income—more visible to members and potential members? Maybe applying some of the resources you now use for bonuses to these other options would indeed net you more recruits and reenlistments per dollar spent than do bonuses. It is interesting that many of your own attitudinal studies indicate that pay is not the number-one reason people give for leaving the service. Rather, the higher priority reasons people give have to do with their work and living environment. Maybe if improvements were made in these areas, less money would have to be spent on bonuses.

Dr. KORB. To fill our manpower requirements, we apply a wide range of alternatives including those you cited and others discussed above. We try to use each alternative to the fullest extent of its effectiveness as situations permit. For instance, in order to make military pay and benefits more visible, the Air Force has provided each member with a summary cost of the worth of his regular military pay and benefits and the other Services are in the process of doing the same. Although the Services strive to improve the work and living environment, we should clarify for the record that pay is in fact the number-one reason that enlisted personnel give for leaving the service. This was recently documented in a March 1982 report by the Rand Corporation entitled Description of Officers and Enlisted Personnel in the U.S. Armed Forces. When survey respondents who were considering leaving military service were asked what the most important reasons were for wanting to leave, the highest percentage of enlisted personnel in all Services marked the following three reasons most frequently: (1) low pay and allowances; (2) better civilian job opportunities; and (3) reduction in military benefits. Selective reenlistment bonuses treat these causes most directly and most effectively.

QUESTIONS SUBMITTED BY SENATOR WILLIAM S. COHEN

Senator COHEN. Mr. Hale, as you know, I have a special interest in educational benefits for service personnel. It was a mistake in my view to end GI bill benefits in 1976. I believe that decision contributed to the decline in quality that the services encountered in the late 1970's. You suggest that your option including educational benefits is the "most risky." Could you please expand on why you view it as "most risky."

Mr. Hale. First, I would agree that termination of the Vietnam-era GI bill without a compensating substitute benefit contributed, among other factors, to the decline in recruit quality during the late 1970's. Limits on pay and other benefits and on recruiting resources, as well as an improving economy during this period, largely account for this decline in recruit quality.

Regarding the educational benefit option coupled with a freeze on recruit pay, I characterized this as the "most risky" of the four compensation options considered in my testimony largely because of the uncertainty surrounding the recruiting and eventual retention effects of such a program. Since the advent of the All-Volunteer Force, a large body of empirical evidence has been collected which clearly shows that shifts in military pay relative to the pay levels available in the private sector are positively correlated with the supply of quality recruits available to the services. Unfortunately, the empirical evidence available on how educational benefits affect military recruiting is much more limited. Moreover, there is a legitimate concern that once an educational benefit is earned, it can act as an incentive to separate from military service which would tend to raise turnover in the force and therefore drive up recruiting requirements.

Thus, the freeze on recruit pay specified in the educational benefit option thus would clearly make recruiting more difficult. The educational benefits, designed to compensate for the reduction in recruit pay, would have a much more uncertain effect on recruiting. It is for these reasons that I described this option as the most risky approach.

Senator Cohen. Mr. Hale, you note that the education option could cost $440 million more in 1983 than the 4 percent across-the-board increase would. These funds would not actually be paid out in 1983, however. If we were not using the accrual accounting method, how would this approach compare with the other alternatives?

Mr. Hale. The illustrative educational benefits option we have chosen in our testimony couples educational benefits with a freeze on recruit pay (that is, for E-1's and E-2's) for the first three fiscal years, followed by comparability raises thereafter. The costs of this option on an outlay basis can be compared to those of the compensation policies set forth in the First Concurrent Resolution, which authorized three consecutive pay raises of 4 percent each for all military personnel.

For 1983, the educational benefits option would cost $100 million less than the 4-4-4 baseline because E-1's and E-2's would receive no raise, rather than 4 percent, and because no educational benefits outlays would be incurred. In later years, the educational benefits option would entail higher outlays for military pay than the 4-4-4 baseline, mostly because the baseline would limit all personnel to 4 percent raises in 1984 and 1985 while the educational benefits option would grant comparability raises to all personnel above the grade of E-2. Savings in pay for E-1's and E-2's would fail to offset these higher costs, so that the net increase in military pay costs under the educational benefits option would be $8.5 billion from 1983-87. Outlays for educational benefits beginning in fiscal year 1986 would add $380 million to the five-year costs of the educational benefits option, for an overall increase in outlays of $8.9 billion. Long-run costs, of course, would be much greater.

While I am glad to provide these outlay estimates, I believe that the long-term nature of costs from educational benefits argues for accrual funding. In contrast to pay raises, which are authorized annually, an educational benefit would likely be enacted as permanent legislation incurring long-term financial obligations in a manner similar to the Vietnam-era GI bill. Because most educational benefit proposals contemplate provisions similar to the Vietnam-era GI bill, which permitted expenditure of earned benefits over a period up to ten years after the date of separation, actual costs will not occur for many years. An accrual funding concept would recognize the eventual obligations in the Defense and/or Veterans' Administration budgets in the year in which the obligation occurred. For this reason, we believe that accrual funding is a more responsible way of budgeting, and one that encourages more judicious managment of such a program on the part of the Department of Defense.

Senator Cohen. Mr. Hale, would you please trace out over five years the comparative costs of the education option to the other ones using accrual accounting and actual outlays.

Mr. Hale. The five-year increases under all five options are shown in the following table.

COST INCREASES RESULTING FROM ALTERNATIVE MILITARY COMPENSATION POLICIES

[In millions of current dollars]

Pay raise plan	1983	1984	1985	1986	1987	Total 1983–87
4–4–4, comparability thereafter	1,500	3,100	4,800	7,000	9,400	25,800
8 percent in 1983, comparability thereafter	3,000	6,100	9,300	11,900	14,700	43,000
4 percent in 1983, comparability thereafter	1,500	4,400	7,500	10,000	12,600	36,000
Targeted raise in 1983, comparability thereafter	1,600	4,500	7,600	10,100	12,800	36,600
Educational benefits; recruit pay freeze 1983–1985, otherwise 4 percent raise in 1983; comparability thereafter:						
(a) Accrual basis	1,900	4,800	7,700	10,100	12,700	37,200
(b) Outlay basis	1,400	4,200	7,100	9,600	12,400	34,700

Senator COHEN. Mr. Hale, have you been able to estimate how approval of a new GI bill program would affect the recruiting of individuals in the top three mental categories?

Mr. HALE. First, for the reasons I stated earlier, the effects of an educational benefit on recruiting and eventual retention are subject to a greater degree of risk and uncertainty than are the effects of pay raises. We have however, made a number of estimates during our research on this subject on behalf of the House Committee on Armed Services. Last March, for example, we submitted a report that estimated the effects on recruiting for several alternative educational benefit proposals. The tables below describe four educational benefit options we examined and their effects on high-quality recruits—that is, primarily high school graduates in mental categories I-IIIA.

TABLE 3.—EDUCATIONAL BENEFIT OPTIONS

Option	Program design features	Maximum accumulated benefit paid by DOD [1]	Anticipated monthly stipend for full-time school attendance
I. Contributory VEAP	DOD contributes $2 for each $1 a servicemember contributes. Maximum accumulation pays out $225 monthly for 36 months' schooling.	[2] $5,400	[3] $150
With kickers (current policy)	Adds $12,000 DOD contribution for Army high school graduate test category I–IIIA enlistments for 36 months' contributions.	[2] 17,400	[3] 510
II. Noncontributory plan	Each month's service provides one month's benefit at $225. Maximum 36 months.	8,100	225
With supplemental	Supplemental equivalent to kicker in option I	20,100	560
III. Two-tier noncontributory plan	Same as option II, except completion of 6 years' service doubles value of 36 months' basic benefit.	16,200	225/450
With supplemental	Same as option II	28,200	560/785
IV. Two-tier noncontributory plan with benefit transfer.	Same as option III, except 10 years' service allows expenditure of earned benefit by spouse and college-age children. Must remain on active duty (or retire) during transfer.	16,200	225/450
With supplemental	Same as option II	28,200	560/785

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[1] By comparison, the Vietnam-era GI bill now provides a maximum earned benefit of about $18,300 (for the typical veteran with one dependent).

[2] Figures shown exclude $2,700 that must be contributed by plan participant to accumulate maximum benefit.

[3] Assumes member contributes $50 monthly for 20 months, and receives 2-for-1 matching funds from DOD, plus supplemental benefits if applicable. This represents the typical amount and length of participation by VEAP participants to date.

TABLE 5.—ESTIMATED EFFECTS OF FOUR EDUCATIONAL BENEFIT OPTIONS ON ARMY RECRUITING AND RETENTION RELATIVE TO LEVELS UNDER 1981 PROGRAMS [1]

Options	Percentage increase in high-quality accessions		Less the percentage change in high-quality recruiting requirements [2]	Net percentage change in high-quality recruiting	
	Low	High		Low	High
I. Contributory VEAP	2	6	2	0	4
II. Noncontributory plan	3	11	5	−2	6
III. Two-tier noncontributory plan	3	12	5	−2	7
IV. Two-tier noncontributory plan with benefit transfer	4	14	0	4	14

[1] Estimates take into account the effect of the Army VEAP kicker program (less generous than option I) available in fiscal year 1981 and thus show the net percentage improvement in Army high-quality recruiting when the options are chosen as substitutes. CBO estimated that in the fiscal year 1981 test program the control cell (one-half the Nation) for the Army, which received VEAP with kickers averaging $4,800, produced a 1.5 and 6.5 percent increase in high-quality recruits in the low and high estimates, respectively. The steady-state adjustment in recruiting requirements attributed to the vested benefit's separation incentive amounted to 1.7 percent. These figures were deducted to yield the values shown on this table.

[2] These figures represent increases in high-quality recruiting necessary to offset the additional high-quality separations attributed to the options (with supplemental). The estimates assume that enough time has passed so that all persons making reenlistment decisions are eligible for the educational benefits.

Senator COHEN. Mr. Hale, it strikes me that a new GI bill program could prove a more attractive recruiting tool than an increase of $8 to $10 a month for new recruits who have no historical perspective of how much the men or women who came in a month before them was getting. You seem less sure of that. Could you give me your thoughts on the comparative attractiveness of these two approaches?

Mr. HALE. I believe the loss of a 4 percent raise would amount to about $20 a month in terms of basic pay alone. While this monthly loss in pay may appear small, studies of the actual behavior of potential recruits over the last decade suggest it would have a noticeable effect on the recruiting potential of the sevices. Studies show that even a slight real decline in the value of military pay means that some applicants on the margin would choose not to enlist. By the same token, the introduction of a more generous educational benefit should have a positive effect on enlistments.

The fundamental question is whether the introduction of this compensating educational benefit would be sufficient to offset the loss of recruits attributed to the pay freeze, and at what cost. The option that coupled the pay freeze for recruits with an educational benefit contemplated three consecutive freezes. By 1985 these freezes would amount to a loss in monthly pay of about $70 when compared to the plan in the First Resolution, which provided three consecutive raises of 4 percent each through fiscal year 1985. Whether the educational benefit would be sufficiently attractive by this time to offset the depressing effect of such a substantial decline in real recruit pay remains even more uncertain.

Senator COHEN. Mr. Hale, in your statement you say that the pay raise approved before the United States moved to an all-volunteer force in 1973 provided large pay increases for junior personnel. I think that creates a somewhat misleading impression of what took place in fiscal year 1972.

In fact, junior personnel ended up with lower increases than had been approved by either the House or Senate. The House approved pay levels of $5,036 for E–1's; $5,484 for E–2's; $5,893 for E–3's and $6,457 for E–4's. Senate figures were $5,320 for E–1's; $5,530 for E–2's; $5,831 for E–3's and $6,329 for E–4's. House and Senate conferees, in a compromise described by then-Senator Gordon Allott as "economics according to Lewis Caroll," came up with figures for junior personnel that were less than either house approved. The conference provided annual pay of $4,872 for E–1's; $5,311 for E–2's; $5,663 for E–3's, and $6,189 for E–4's.

Not to belabor this, but the New York Times in a July 3, 1971 editorial described that as "a victory for the budget-makers, but a defeat for low-ranking servicemen who were to have been the principal beneficiaries of the increase." Thus, while on a percentage basis low ranking personnel did better than their high ranking counterparts, they did not do as well as either the House or Senate intended, and there was considerable feeling that the lower rates approved for junior enlisted personnel could jeopardize the all-volunteer force before it ever began.

This is not to discount your testimony in any way, but I did want to clarify the historical picture on junior enlisted pay.

Mr. HALE. I appreciate you setting the record straight on the fiscal year 1972 pay raise for junior servicemembers as we transitioned into an all-volunteer force. While we could argue over the adequacy of its size, the 1972 raise was substantial and was intended, I believe, to raise first-term pay up to a point more comparable with private industry at the time.

The pattern of raises for new recruits as well as all servicemembers over the past decade has been quite erratic. As a consequence, we have had wide swings in the quality levels of entering recruits and the retention behavior of our career personnel. Should the federal government continue to operate in this fashion, and in the absence of any fundamental reform in the structure of military compensation, we are likely to experience a continuation of this erratic pattern of recruit quality and career retention.

Senator **Cohen**. Dr. Korb, in your discussion of educational benefits, I see no reference to the Student Loan Forgiveness program. As the original Senate sponsor of this proposal, I must tell you that I have been disappointed by what I perceive as a lack of commitment on the part of the Pentagon to this program. Could you please tell me the extent to which this program is used as a recruiting tool, how recruiters present it to potential recruits, and how many individuals have joined the Active and Reserve forces as a result of this incentive?

Dr. **Korb**. The Armed Forces Loan Repayment Program was initially offered from 1 October 1980 to 1 October 1981. In December 1982, the Congress authorized an extension of the program through 1 October 1983 and that authority was conveyed to the Military Services.

In the initial year, the Army offered the program to the Active and Reserve components; the Navy, Marine Corps and Air Force, to the Active force. In the first year, utilization rates were as follows:

Revised estimate, May 1982

Army:	
Active	500
Reserve	375
Navy	1,000
Marine Corps	10
Air Force	375
Total	[1] 2,260

[1] After initial scan of applicants for eligibility.

After 1 October 1981, the Services closed the program to new enrollments. The independent Service decisions to reopen the program are contingent upon the accession objectives of each Service.

Since 1981 recruiting with conventional incentives has been very effective. Accordingly, the Navy and Air Force are authorized to reopen the program but have not elected to do so at this time. The Army, however, has decided to reopen the program for Active and Reserve personnel enlisting after 1 October 1982. In the reopened program the eligible MOSs will be more narrowly defined than under the previous Army guidance for loan repayment, thus targeting critical skill areas more effectively than in the past. Army instructions are being circulated to the field to properly inform recruiters and staffing specialists of the eligibility criteria and claims processing procedures under this program.

Senator **Cohen**. Dr. Korb, in March, I asked the Defense Department what would happen if pay were capped in fiscal year 1983. The response I received said that a cap of five per cent would mean 50,000 fewer careerists and 80,000 fewer recruits by the end of the five-year defense plan (FYDP). In addition, DOD told me, caps on military pay would decrease the supply of male high school diploma mental category I-III recruits. "It is safe to say," DOD said, "that such a pay action would undo most, if not all of the recruiting and retention achievements of the past two years." In light of this response, prepared, I assume, by your office, do you think it is wise to hold down pay at a time when the services are having real success in recruiting and retention? Do you support the conclusion that we could jeopardize the successes of the past couple of years?

Dr. **Korb**. A cap on the fiscal year 1983 military pay raise will result in fewer careerists, and will require additional recruits, than would a full comparability increase of 8 percent. As the Assistant Secretary of Defense responsible for military manpower, I would prefer that it not be necessary to cap military pay raises. However, I understand that the President and the Congress must make budget decisions from a broader perspective, i.e., it is in the best interests of the country as a whole, and ultimately in the best interests of military personnel as well, to reduce the current large projected budget deficits and restore the economy to healthy real growth. I fully support the efforts of the President to achieve that objective. There is some risk in capping military pay raises in fiscal year 1983, but I believe that, with comparability increases in fiscal year 1984 and beyond, we will be able to meet our recruiting and retention objectives.

RECRUITING AND ADVERTISING

Senator **Cohen**. Dr. Korb, one reason for the recruiting success, in addition to the pay increases of the past two years, has been that you have been given adequate recruiting advertising funds. Are the recruit advertising levels provided in the fiscal year 1983 defense authorization bills now in House-Senate conference adequate to meet your recruiting needs? For the record, what are the House and Senate advertising levels, and what is your recommendation for a final figure?

Dr. **Korb**. The recruiting and advertising funds requested in the fiscal year 1983 President's budget are required to meet the recruiting needs of the Department of Defense. The Department reluctantly submitted a reduction of $45 million in operations and maintenance funds for recruiting and advertising as a "good faith" response in the context of an agreement between President Reagan and the Senate Republican leadership. (Army—$25 million, Air Force—$5 million, Department of Navy (including Navy and U.S. Marine Corps)—$15 million.) Reductions in specific programs such as recruit advertising were not identified. Both House and Senate authorization bills include the $45 million reduction. The House also reduced the Marine Corps an additional $5 million and also reduced Joint Programs by $2.5 million.

The Department of Defense recommends no further recruiting resource reductions beyond the $45 million. Our rationale is based upon the declining male market, the increase in fiscal year 1983 accession requirements (where, incidentally, the Army Delayed Enlistment Program has not yet grown at the rate needed to meet their fiscal year 1983 requirements), the more stringent congressional constraints on recruit quality, and the possible negative impact of a pay cap.

In addition, the Department requires the flexibility to align the recruiting reduction by specific programs as it sees fit and has not made a final determination with regard to advertising levels.

Senator **Jepsen**. Thank you. This meeting is adjourned.

[Whereupon, at 10:54 a.m. the subcommittee adjourned, to reconvene subject to the call of the Chair.]

PAY AND PERSONNEL MATTERS IN THE ARMED SERVICES

TUESDAY, AUGUST 10, 1982

U.S. SENATE,
SUBCOMMITTEE ON MANPOWER AND PERSONNEL,
ARMED SERVICES COMMITTEE,
Washington, D.C.

The subcommittee met, in open session, at 10:10 a.m., in room 212, Russell Senate Office Building, Senator Roger W. Jepsen (chairman) presiding.

Present: Senators Jepsen, Quayle, Denton, and Exon.

Staff present: Anthony J. Principi, counsel; Francis J. Sullivan, minority staff director; Paul C. Besozzi, minority counsel; Michael B. Donley, Richard D. Finn, David S. Lyles, and José E. Martinez, professional staff members; Mary A. Shields, research assistant; Kimberly A. Manning and Barbara Lacey, staff assistants.

Also present: Jim Dykstra, assistant to Senator Cohen; Jon Etherton, assistant to Senator Jepsen; Paul Schreiber, assistant to Senator Denton; Hank Steenstra, Judy Buckelew, and Larry Smith, assistants to Senator Quayle; Gray Armistead and Julia Habel, assistants to Senator Byrd; and Greg Pallas, assistant to Senator Exon.

OPENING STATEMENT BY SENATOR ROGER W. JEPSEN, CHAIRMAN

Senator **JEPSEN**. Good morning. The subcommittee convenes this morning to continue its series of hearings on pay and personnel matters.

This morning the subcommittee will be receiving testimony from the services and GAO, as well as representatives of public organizations. I would like at this time to welcome Lieutenant General Iosue, Admiral Zech, General Thurman, General Cooper, Ken Coffey, Colonel Hennrikus, Robert Nolan, Mr. McKinney, and Madeline Van Wagenen.

The scope of today's hearing is necessarily broad. As I have stated before, in times of limited resources it is essential that we analyze every component of the military compensation system in order to develop a comprehensive package to meet our military manpower requirements. We simply cannot afford to view pay, bonuses, educational benefits, and other allowances in isolation. By looking at the interrelationships between new and existing programs and our goals and requirements, we can develop a cost-effective and attractive package of benefits.

Because of the great number of views we will be hearing today, I must respectfully request that each of the witnesses present as brief an oral testimony as possible. This will insure that the subcommittee members will have adequate time for questions. I assure you that your written remarks will be entered in full into the record as if read.

General Iosue, welcome: and you may proceed.

STATEMENT OF LT. GEN. ANDREW P. IOSUE, U.S. AIR FORCE, DEPUTY CHIEF OF STAFF FOR MANPOWER AND PERSONNEL

General IOSUE. Thank you, Mr. Chairman.

I have submitted a statement for the record, but I do have a few brief remarks which I would like to make.

I do want to thank the committee for their strong support over the last couple of years, particularly last year, your efforts in restoring military pay comparability with the private sector for the first time in 10 years. I sincerely believe that pay comparability is a basic requirement for success on the All-Volunteer Force.

As you deliberate about the size of the fiscal year 1983 pay raise and with the budgetary constraints that you face, I am sure that you will be forced to impose a pay cap; and I think our people will understand that and are prepared to sacrifice, recognizing the fiscal problems this Nation has. But I strongly urge that any subsequent pay increases in deliberating those, that you return to comparability as soon as possible. If not, we will find ourselves in the same position as existed in the late 1970's. There is a remarkable parallel between the mid-1970's and today.

In 1975, we did have fiscal problems and a declining economy. At that time, pay was capped at 5 percent. In the next 2 years we had, in essence, pay caps when we reallocated pay for basic pay into BAS and BAQ. In 1978, a pay cap; in 1979, another pay cap. And then the bottom fell out. We had a massive hemorrhage of talent. We saw our pilot surplus shrink to the point where we were 1,300 pilots short. We lost some 17 percent of our pilot experience. We saw in 1 year 83,000 enlisted careerists leave the U.S. Air Force, some 600,000 man-years of experience. One out of four senior master sergeants left the Air Force, the majority of which were incredibly skilled.

The Air Force is still recovering from that period, and despite outstanding recruiting and retention trends that we have seen in the last couple of years, we still have a pilot shortage, some 1,100 pilots short; we are short 1,000 engineers; and we are short some 9,000 noncommissioned officer specialists.

So, in summary, if we must cap, I urge we return to comparability as soon as possible. We cannot afford another collapse in recruiting and retention and roller coaster retention cycles as we have seen in the past few years. And, if we are capped, I assume that the pay increase will be about 4 percent, in the 4-percent area. The Air Force prefers an across-the-board increase. I feel 4 percent is too small to attempt targeting. I think you do more harm than you do good by trying to spread 4 percent in a targeted fashion versus across the board.

I think we make a serious mistake denying any group participation in a pay raise. We have 165,000 junior enlisted personnel; 40,000 of that 165,000 are married, and they are hard pressed to make ends meet. Seventy-one percent of them have a working spouse, and some 32 percent moonlight.

The Bureau of Labor Statistics, Department of Labor, has told us that it takes about $15,000 per year, and that is the low-income bracket, to make ends meet; and that is a family of four living in an urban area. The average pay of an E–1 through E–3 is about $12,000 per year. So, I think we create hardships and would find our junior enlisted personnel incurring debts if we do not provide them a portion of that 4-percent pay increase.

Additionally, another area I would like to address is the travel reimbursements. It is an area of serious concern to me where our people incur out-of-pocket expenses to move from point A to B on directed moves. The most recent study has shown that Air Force people spend $280 million out of their pocket over and above what they are reimbursed in directed change-of-duty stations. The average staff sergeant paid $1,250 out of his pocket; the average captain paid some $1,750 out of his pocket on directed change-of-station moves.

Our people should not be expected to bear this burden, and I urge your support of PCS per diem and TDY increases that are in the fiscal year 1983 budget.

Let me close by saying that recruiting and retention are doing extremely well, but the situation is fragile. We need to maintain the momentum which we have picked up in the last year, and to do otherwise would be pennywise and pound foolish.

Again, I want to thank this committee for your support over the past year.

Thank you.

[The prepared statement of General Iosue follows:]

PREPARED STATEMENT OF LT. GEN. ANDREW P. IOSUE, DEPUTY CHIEF OF STAFF, MANPOWER AND PERSONNEL, U.S. AIR FORCE

Good morning, I'm Lieutenant General Andrew P. Iosue, the Air Force Deputy Chief of Staff for Manpower and Personnel. I appreciate the opportunity to be here this morning and discuss with you the Air Force perspective on pay and bonus issues.

In general, I bring good news today as Air Force manning, both in number and quality, is at its "healthiest" level since the mid-1970's. We are meeting our recruiting goals for all enlisted categories and quality trends are favorable. As of June 1982, 93 percent of our fiscal year 1982 enlisted accessions possessed a high school diploma. Among officers we're meeting accession requirements in every category except in engineers and certain medical specialties.

Retention is also up. Fiscal year 1981 first and second term reenlistment rates were 43 percent and 72 percent respectively as compared to 38 percent and 60 percent in 1979, the worst year in recent memory. Similarly, officer retention has shown a dramatic turnaround. Pilot retention (6–11 YOS) for fiscal year 1981 was 54 percent as compared to only 26 percent in fiscal year 1979.

Unquestionably many factors have been instrumental in the significant improvements in recruiting and retention. Internal leadership efforts, adequate recruiting resources, the currently depressed economy, the high unemployment rate, and resurging patriotism all played a part. But, the single most important factor was improved pay—specifically, with out most sincere thanks to this committee for the 11.7 percent and the average 14.3 percent pay increases in fiscal year 1981 and 1982 which restored military pay comparability.

Another major factor in the retention of enlisted members is the Selective Reenlistment Bonus (SRB). Our ability to provide an added incentive to those in hard-to-attract or hard-to-retain skills has helped us to close the gap with private sector wages and retain skilled personnel we would otherwise have to replace with new accessions. Reenlistment rates in SRB skills have been consistently well above those rates of non-SRB skills. If the scope of the bonus programs were seriously reduced, it would exacerbate our current difficulties in some chronic critical skills; many SRB skills would have reenlistment rates well below the air Force average, further aggravating shortages and impairing our readiness capability. As evidence to the bonuses' cost-effectiveness, the SRB budget is less than two percent of the total enlisted pay and allowances budget of $6.7 billion. The fiscal year 1983 budget for the SRB Program is $119.0 million, a $5 million increase over 1982. Approximately $19.0 million of the total is required to pay for deferred installment payments due to 1982 reenlistees who are the first to be paid on the "50 percent lump sum and 50 percent installment" method. Some limited growth is programmed in new SRB payments to alleviate career force shortages. The remainder will be spent in retaining those careerists in critical skills presently on board.

An equally effective program is the enlistment bonus. Within the Air Force we have judiciously implemented the bonus on a very limited basis. Our program includes only seven skills and is especially prudent in that eligible members cannot receive their bonus until after they complete the required training—this reduces attrition problems. The enlistment bonus is focused on career fields in which we have difficulty meeting requirements primarily because the duties are either extremely dangerous (explosive ordnance disposal) or demand above average intellectual or academic credentials (crypto linguists). The Air Force's enlistment bonus budget of $2.9 million for fiscal year 1983 is a $600 thousand increase over 1982. This small increase is due essentially to an anticipated increase in participants in 1982.

Notwithstanding our current successes, I am still concerned about the future. The situation we face today is reminiscent of the one we witnessed in 1975 when we were unknowingly on the brink of the worst military manpower crisis since the advent of the All Volunteer Force. In May 1975, after several consecutive quarters of economic downturn, unemployment reached its post-war peak of 9 percent. This marked the low point in the recession. It was followed by a strong recovery. In 1975, when the recession was at its worst, a 5 percent cap was placed on military pay in response to concerns about the declining economy and growing Federal deficits. This was followed in rapid succession by 2 years of pay raise reallocations and two additional pay caps in 1978 and 1979. As a result, in 1979, all Services failed to meet their recruiting goals, with the Air Force missing its enlisted recruiting goal for the first time in the history of the All Volunteer Force. More importantly, all Services experienced dramatic and alarming losses of experienced careerists including pilots, navigators and enlisted personnel in critical skills. Our pilot inventory went from a 3,200 man surplus in 1975 to a 1300 deficit in 1979; pilot experience dropped an average of 17 percent. In 1979 alone, we lost 83,000 enlisted members representing almost 600,000 manyears of experience. One of every four Senior Master Sergeant maintenance supervisors left the Air Force.

When surveyed, departing members cited a myriad of reasons for leaving, but the reason most often given was inadequate pay—pilots listed "annual pay increases to small" as the No. 1 factor in the decision to separate. This phenomenon was not surprising considering that 40 percent of the officers and 60 percent of the enlisted members had experienced a net loss in purchasing power since entering the Air Force. Members viewed jobs in the private sector as having more financial security, greater stability and increased job satisfaction.

In an attempt to reverse this "hemorrage of talent", Congress passed two substantial pay raises in 1980 and 1981 which restored military pay to the relative levels of comparability with the private sector. The Congress, with strong support from the current Administration, led the effort to restore comparability. Notwithstanding the resultant favorable effects of an upward surge of retention and increased recruiting successes, the Air Force is still unable to offset the experience which was lost in recent years. For example, we are still short 1,100 pilots, 1,000 engineers, and about 9,000 noncommissioned officer specialists in critical sortie-generating skills. Even under the best of circumstances, we do not project "getting well" until the 1985/1986 time frame.

The salient point in this comparison is that there are remarkable parallels between 1975 and 1982. Both years were plagued with recession and high unemployment; in both years there was pressure to reduce defense spending and the budget deficit. A prominent target in 1975 and again today is the projected military pay increase. In 1975, and in the 4 years that followed, that target was hit repeatedly and by September of 1980, military pay lagged private sector wages by 17.6 percent. There is, however, one critical difference in this comparison. In 1975 we were drawing down from the war in Southeast Asia; we had a "bank" of skilled, combat-experienced people. Today, we don't have that "cushion" of experience primarily because we haven't had ample time to recover from the devasting losses of the late 1970's—we're still short in certain critical skills.

Additionally, a matter that affects thousands of military members each year is the out-of-pocket cost of a Permanent Change of Station (PCS) move. The world-wide nature of the Air Force mission necessitates directing these moves although we have worked diligently to hold them to a minimum. Between fiscal years 1974 and 1981, we reduced PCS moves by 52 percent; in the same period, we increased the average time on station for our people by 108 percent. The lack of adequate PCS travel reimbursements remains one of the most critical personnel issues facing Air Force people today. While several positive steps were taken in fiscal year 1981 and fiscal year 1982 to increase travel reimbursements, still more is needed to eliminate the estimated $280 million in unreimbursed out-of-pocket expenses paid annually by Air Force members to subsidize government-directed relocations. For example, a Staff Sergeant moving in late 1980 had median out-of-pocket costs of $1,250; a Captain paid out-of-pocket expenses totaling $1,750. Inadequate PCS reimbursements are also reducing the number of volunteers for overseas duty. In 1975, 70 percent of overseas requirements were satisfied by volunteers. By 1981, this was down to 26 percent. Failure to offset the out of pocket expenses associated with PCS moves will aggravate the adverse effect causes by loss of pay comparability.

The pivotal factor is the need to recognize that the cost of PCS is a cost of military readiness. Our people should not be expected to bear this burden. As first steps to overcome the disparity, the fiscal year 1983 budget provides for: an increase in the mileage allowance from 13 to 16 cents per mile for members; an increase in the dependent mileage allowance from 7 to 10 cents per mile for each dependent 12 years of age or older, an increase from 3½ to 7 cents per mile for each dependent 2–12 years of age; and an increase in the household goods weight allowance for E–7s and above (500 to 2,500 pounds per member depending on grade).

There was one significant compensation-related setback in fiscal year 1982 which is negatively affecting the morale, and hence the readiness, of our personnel. The loss of per diem equity for enlisted members (through a funding restriction in the fiscal year 1982 DOD Appropriations Act) represents a serious problem for the Air Force. The application of this restriction to PCS moves constitutes a step backward in our efforts to eliminate negative compensation. I urge the Congress to completely eliminate this inequity and permit us to restore full per diem equity to enlisted members as soon as possible.

The bottomline is that I firmly believe now is the time to maintain the momentum we've gained. To do otherwise could reverse the beneficial recruiting and retention improvements from the 1981 and 1982 pay increases and delay, or even preclude, our restoring experience to acceptable levels. Further, if the economy is on the verge of recovery, as many experts predict, the "draw" of an upswing in industrial and airline hiring, aggravated by depressed military pay, could lead to increased losses of experienced people comparable to the losses we suffered in the late 1970s: losses that were alarming then would be crippling today.

Another pressing problem which I would like to briefly mention is the need for legislation affecting the number of flag and general officers in the Department of Defense. Since a decision has not been made on the proposed comprehensive legislation which was submitted in March 1982, all of the Services have been operating with approximately 4 percent less flag officers. I believe it would be appropriate to provide an extension of the previously approved level of 1,119 flag officers, until September 30, 1983, pending congressional consideration and approval of the DOD Comprenhensive Flag/General Officer package. This would alleviate the negative impact which the reduction has imposed at the senior levels of leadership.

Senator JEPSEN. General Iosue, this question may apply to the whole panel, but while it is fresh, are you advocating a catchup for next year?

General IOSUE. I am not sure that we can afford a catchup for next year. If we can, that is fine. If not, I would advocate a gradual catchup so we are not faced with going through what we did in 1981 and 1982 with a 25, 26-percent pay increase in an effort to catch up. I would advocate a gradual catchup to see what the comparability tables tell us, and then perhaps try to add to that gradually over the next 2 or 3 years.

Senator **Jepsen**. So we would just be deferring the cost to the outer years? You cannot have comparability without catchup, I guess. Is that accurate?

General **Iosue**. That is true.

Senator **Jepsen**. Do you still feel—and this sounds familiar—there should not be any targeting at all this year?

General **Iosue**. Not with the 4 percent. Not unless we get the comparability increase. I would advocate that. If it is at 4 percent, I would recommend that we go across the board.

Senator **Jepsen**. Does the Air Force have any recruiting problems?

General **Iosue**. No, sir. We do not have any recruiting problems.

Senator **Jepsen**. As you know, I have had a problem with giving pay increases to folks who are really on a 6-month trial basis, and that is the case with your new recruits. If you are not having problems recruiting then, what is the reason for thinking that we must have a pay raise across the board again?

General **Iosue**. Well, we have told our people that we are going to attempt to maintain comparability. I think that by giving them zero percent I think would break faith with them. We do deny them an increase that from the benchmarks we use, whether we use the PATC survey or the Employment Cost Index, indicates that the pay increase should be in the 8 to 9-percent range, and we are going to go with 4 percent, and in addition to that deny E-1's through E-3's part of that 4 percent increase. They do have financial difficulties. As I mentioned, they are earning about $12,000 per year, and it takes a family of four some $15,000 per year to live in an urban area.

Mr. **Principi**. What if you provided comparability for E-1's and E-3's? Most of your E-1's are not in uniform yet. They will come on board in fiscal year 1983. Why provide them with a comparability increase if you do not need it for recruitment?

General **Iosue**. We are not providing them comparability. We are talking about capping pay, and what I have said is conditioned upon capping pay, assuming 4 percent, I think that is too little to try to spread in a targeted fashion. I think we do more harm than good.

Mr. **Principi**. Suppose we just save the $60 million for E-1's and provided everyone else with a 4-percent pay raise, E-2's on up? Would you agree to that kind of formula?

General **Iosue**. I think that would be acceptable, yes, because he is an E-1 for just 4 months, and then he would get that increase.

Senator **Jepsen**. Admiral Zech?

STATEMENT OF VICE ADM. LANDO W. ZECH, JR., USN, DEPUTY CHIEF OF NAVAL OPERATIONS FOR MANPOWER, PERSONNEL AND TRAINING AND CHIEF OF NAVAL PERSONNEL

Admiral **Zech**. Mr. Chairman, I appreciate the opportunity to appear before you today to discuss the important matter of military compensation. I would like to touch briefly on what I consider the key compensation issues which face the Navy today.

I can say without reservation that the restoration of military pay to comparability with civilian wages has been the single most important factor in the dramatic improvements in recruiting and retention in the past 2 years. I feel very strongly that we must sustain the momentum we now have.

Recognizing that the budget resolution calls for a 4-percent pay raise, half the approximate 8 percent necessary to maintain comparability, I am concerned that we do not begin a trend which allows military pay to deteriorate below that offered in the private sector.

We saw all too vividly the devastating impact repeated pay caps have on our ability to recruit and retain the quality manpower that the Navy requires. This is a particularly critical issue for the Navy as we build our manpower base to meet the increased demands of a larger fleet. Although it may be necessary to sacrifice in this area this year for the good of our Nation, I urge you to keep pay comparability for our military forces as a top priority as you consider our future defense needs.

Associated with the issue of pay comparability is our need for a new mechanism for adjusting military pay. Based on the extensive work done by a joint service study group, I strongly urge your support for linking military pay to a relatively new pay measure, the Employment Cost Index or ECI. This index has a solid reputation as an indicator of national wage change. It covers a broad spectrum of occupations, and linkage to it would provide a long-term solution to the problems of pay comparability and pay system instability.

While adequate basic pay provides the foundation of the compensation system, bonus programs are our most effective and flexible tools to attract and retain personnel in critical specialities. I would like to discuss the selective reenlistment bonus and the aviation officer bonus very briefly.

The selective reenlistment bonus program is the key element in our ability to provide the experienced petty officers with critical skills that we require to man our ships and squadrons both today and in the future. We expect that our fiscal year 1983 program will yield an additional 3,000 petty officers over the fiscal year 1982 program and will increase inventory levels in several ratings where we are experiencing serious manning problems.

The selective reenlistment bonus program receives our constant scrutiny to insure that we are getting the maximum return from the bonus dollars. Because this program is so critical to our efforts to man a growing Navy with quality petty officers, I strongly urge your support for both extending the bonus authority and approval of the requested fiscal year 1983 funding level.

Although the aviation bonus was implemented only last summer, it has been an immensely successful program so far. In the late 1970's our aviator manning declined to dangerously low levels. We saw the aviation bonus as our last opportunity to stave off disaster. It has done that. Roughly 90 percent of the aviators eligible for the bonus since it was implemented on July 1, 1981, have contracted for additional obligated service. Not only has the bonus reduced our aviator shortage substantially, but the aviators who signed up for the bonus will be committed to stay on active duty when the airline hiring situation improves, as most studies predict it will in the near future.

Additionally, increased aviator retention, particularly of the more experienced pilots and flight officers, enhances the operational readiness of our squadrons. When one considers the cost of training replacement aviators, $850,000 for a pilot and $650,000 for a Navy flight officer, the cost-effectiveness of the bonus is dramatic.

We computed an aviator replacement cost of $487 million as opposed to a bonus cost of $26.4 million for fiscal year 1981. Because it will take some years to fully correct our aviator shortages, it is essential that the bonus authority be extended.

There are only two other issues I would like to emphasize. The first is extension of the existing authority to reimburse members for quarters' expense when their ship is uninhabitable during overhaul and no Government quarters are available.

This authority was initially provided on October 1980 and subsequently extended until September 30, 1982. Although the extent to which this authority is used has decreased with the increase in berthing spaces on barges, will decrease further in the future and will reach a steady state level in 1985 there will always be a need to reimburse personnel at overhaul sites where no Government quarters or berthing barges are available. To provide for this requirement, the Navy strongly urges that this authority be extended and made permanent.

The second and last issue which I would like to touch on briefly, is the extension of the current 1989 termination date for utilization of the Vietnam era GI bill benefits. Although I realize that the Veterans' Affairs Committee has primary jurisdiction and presently is considering legislation that would extend the termination date, I would emphasize that the extension of the 1989 date is very much a retention and force management issue.

There are currently close to 200,000 midgrade Navy personnel eligible for GI bill benefits who must decide whether to get out and use their beneifts or to stay in and lose them. It is difficult to predict how many will get out for this reason, but I can tell you that it shows up high on the list of reasons for getting out on our separation questionnaires.

In summary, Mr. Chairman, the support of the Congress, and particularly this committee, for military compensation improvements has enabled the Navy to turn the corner on recruiting and allow us to sustain the positive retention trends which we see today.

Our Navy today is a capable Navy. Our people are competent. They are ready to fight if called upon. Your continued support is necessary in order that our Navy will be able to meet the challenges of the future.

I will be happy to answer any questions you may have, Mr. Chairman.

[The prepared statement of Admiral Zech follows:]

PREPARED STATEMENT OF VICE ADM. LANDO W. ZECH, JR., DEPUTY CHIEF OF NAVAL OPERATIONS FOR MANPOWER, PERSONNEL AND TRAINING AND CHIEF OF NAVAL PERSONNEL

Mr. Chairman and members of the subcommittee:

I. INTRODUCTION

Mr. Chairman, I appreciate the opportunity to appear before you today to discuss military compensation. I can say without reservation that the restoration of military pay through comparability with civilian wages has been the single most important factor in the dramatic improvements in recruiting and retention of the past 2 years. During this time, accession goals have been met and retention rates have increased dramatically. Fewer Navy members are retiring while more are requesting duty at sea. Although it will take the Navy many more years to fully correct the petty officer shortfall that was caused by inadequate pay, we are on the move now with all indicators pointing in the right direction. Based on the strong commitment of the Administration and the Congress, our members sense a stability in the compensation system that was missing a few years ago.

II. BASIC PAY RAISE AND PAY ADJUSTMENT MECHANISM

I feel very strongly that we must sustain the momentum we now have. Critical to maintaining this momentum is a pay raise in fiscal year 1983 which will not allow military pay to fall well below comparable civilian wages as it did in the late 1970's. If we again allow military pay to deteriorate below opportunities in the private sector, we project significant losses of career personnel that we can not afford to lose. For example, our projections indicate that a 1983 pay raise that is four per cent below comparability will result in the loss of over 13,000 Navy careerists alone by fiscal year 1989. We can ill afford such a loss when we are trying to build our manpower base to meet the increased demands of a larger fleet.

Obviously, a long term solution to the problems of comparability and pay system stability is required. Recognizing the deficiencies of the current military pay adjustment process, the services have just completed an extensive study to determine a new mechanism for adjusting military pay. The services identified a relatively new pay measure, the Employment Cost Index (ECI), as the most appropriate mechanism for adjusting military pay. The ECI has gained a solid reputation as a valid national indicator of wage change and is considered the wage equivalent of the Consumer Price Index. It covers a broad spectrum of occupations in the country, representing wage change movement for virtually all American workers except household workers, farm employees and Federal Government workers.

By linking military pay to the national wage index when military pay is roughly comparable with private sector pay the Congress will have the opportunity to avoid the annual debate over the adequacy, or inadequacy, of military pay, while at the same time provide a pay adjustment that would be fair and equitable to the military member. An added advantage to such a linkage is that it would provide a pay adjustment neither higher nor lower than that of the typical worker in the country and thus be acceptable to the taxpayer.

III. BONUSES

While adequate basic pay provides the foundation of the compensation system, bonus programs are our most effective and flexible tools to attract and retain personnel in critical specialities. I would like to discuss the selective reenlistment bonus, the enlistment bonus and the aviation officer bonus.

A. Selective reenlistment bonus

The fiscal year 1983 budget contains $279.5 million for reenlistment bonuses of which $240.7 million is for new awards and $38.8 million is for anniversary payments. This program will yield an additional 3,000 experienced petty officers over the fiscal year 1982 program and is an essential element in our ability to provide the experienced, critical-skilled petty officer base required to man the fleet of the late 1980's. While Navy's overall retention program will target the aggregate petty officer shortages, the SRB portion of that program is the best method to apply scarce resources to those selected critical ratings where out most severe shortages exist.

Associated with attempts to achieve SRB cost savings is the shift from lump sum to 50 percent lump sum and anniversary payments. Although the near-term cost savings associated with this method of payments are obvious, a Center for Naval Analysis study points out that, for a given award level, the savings over the term of reenlistment are zero and that the effectiveness of the bonus as a retention tool is significantly reduced due to the member's propensity to discount the value of the 50 percent lump-sum bonus. For example, in fiscal year 1983, we project there could be a difference of 600 reenlistments between the two payment systems. Of critical importance is that this difference represents hundreds of trained, experienced petty officers in ratings where we are already short of requirements. The consequence is an adverse effect on fleet readiness.

B. Enlistment bonus

In addition to the selective reenlistment bonus program, Navy also has a limited enlistment bonus program, which is an effective tool for targeting Navy accession needs into ratings with chronically low volunteer levels or those with extremely high technical skill entry qualifications. In return for the bonus and additional training received, we require additional obligated service. The success Navy has experienced in meeting recruiting goals in these skills is directly attributable to the enlistment bonus incentive and special training. The fiscal year 1983 budget contains $16.5 million for the enlistment bonus program. These funds are essential to provide accessions of the proper quality to keep pace with Navy's overall manpower expansion.

C. Aviation officer bonus

The Navy also strongly supports the extension of the aviation bonus beyond its current September 30, 1982 termination date. From fiscal year 1977 to 1980, Navy experienced a severe loss of mid-grade 0–3 to 0–5 aviators. Among mid-grade pilots, shortages increased more than 200 percent to a total of over 2,000, despite a constant inventory requirement. This mid-grade inventory decline was a direct reflection of pilot retention, which fell from 46 percent in fiscal year 1978 to 30 percent in fiscal year 1980.

The Aviation Bonus was developed as a supplement to flight pay in order to correct current and projected shortages of career officers in aviation specialities. The bonus payment plan concentrated on aviators in the retention-critical sixth through ninth years of aviation service.

Implemented in July 1981, the AOCP program was instrumental in reducing the total aviation mid-grade officer shortfall by 352 aviators by the end of fiscal year 1981, despite a concomitant increase in aviator requirements of over 300. Since implementation of the bonus, pilot retention has improved dramatically: 42 percent in fiscal year 1981 with a projection of 45 percent for fiscal year 1982.

A marginal cost analysis of the AOCP program demonstrates the program's cost-effectiveness. Navy projected a gain of 298 pilots and 60 NFO's in fiscal year 1981 as a result of the bonus. Actual gains from the bonus between July 1, and September 30, 1981, were 489 pilots and 110 NFO's. Fiscal year 1981 training costs were $850K per student pilot and $650K per student NFO. The replacement value of the 489 pilots and 110 NFO's is $487.2M compared to a fiscal year 1981 bonus program cost of only $26.4 million. While the average pilot training cost of $850K represents a significant dollar investment, the replacement value, in terms of combat readiness, of a fleet experienced aviator with over 6 years of aviation service is unquantifiable.

As a result of the improved retention of fleet experienced aviators and the attainment of programed training rates, we forecast complete recovery from the pilot manning deficit in fiscal year 1989. The NFO deficit will be eliminated in fiscal year 1984 if the current bonus authority is retained.

IV. BUDGET COMPENSATION INITIATIVES

The budget includes initiatives to update the monetary allowance in lieu of transportation (MALT) for members on PCS travel from $.13 to $.16 per mile, and increase dependent mileage rates to $.10 and $.07 per mile to reflect added transportation costs, an increase in household goods weight allowance for members who currently have an inadequate allowance and are charged for excessive weight on PCS moves, and payment of Basic Allowance for Subsistence for E–5 and above careerists. The following paragraphs provide additional information on these initiatives.

A. MALT update

The budget requests $15.1 million to increase the MALT for members from $.13 to $.16 per mile and $5.1 million to increase dependents MALT rates from $.07 to $.10 per mile for those 12 and older and $.035 to $.07 for the 2 through 11 year-old dependents. These increases will enable us to more adequately reimburse members for the actual costs incurred when moving their families to a new duty station. The MALT rate requested for the member represents the actual cost of operating a privately-owned vehicle using the guidance on allowable expenses provided in the fiscal year 1982 HAC Report on the Defense Appropriations bill. Runzheimer and Co., a highly respected research firm, was used as a source of data for the calculations.

Dependents MALT is intended to reimburse the cost of subsistence, additional lodging and incidental expenses incurred on behalf of dependents. Members are incurring costs of $20 for meals, $8 for incremental lodging and $2 for incidentals or a total of $30 per day for each adult dependent. This equates to a dependent MALT of about 10¢ per mile. Approximately $21 or 7 cents per mile is incurred by a member for dependents under 12 years of age.

B. Increase in household goods weight allowance

Currently, over 20 percent of our E-7 and above enlisted personnel and W-2 and O-4 and above officer personnel are required to pay for shipping household goods in excess of their weight allowances when executing PCS orders. The fiscal year 1982 DOD Appropriations Acts precludes prescribing PCS household goods weight allowances in excess of 13,500 pounds. Currently, a significant number of members are exceeding administratively-determined weight ceilings and subsidizing the shipment of HHG for government-directed moves. The fiscal year 1983 budget contains $12.2 million to adjust the HHG weight allowances and reduce the numbers of service members being forced to pay for a portion of their HHG shipment for a government-directed move.

C. Basic allowance for subsistence (BAS) for careerists

Currently, enlisted personnel receive BAS only when no government dining facility is available, under certain TAD conditions, or when they are authorized to subsist separately from the mess. Normally, enlisted members are subsisted in kind at enlisted dining facilities ashore and afloat. Often enlisted members subsigned in kind are financially penalized because they cannot or do not eat all their meals at the EDF, and must pay for meals consumed elsewhere without receiving a subsistance allowance. The result is that the member has paid twice for one meal, which serves as a major irritant to our career force. The budget requests $32.2 million which would remedy this situation by allowing our career force members (E-5 and above) to receive BAS at any time they are stationed ashore and when their ships are in homeport while assigned to a ship.

V. OTHER INITIATIVES

A. Reimbursement for quarters during overhaul

Authority to reimburse members for quarters expense when their ship is uninhabitable during overhaul and no government quarters are available was initially provided on October 1, 1980 and subsequently extended until September 30, 1982. Although the extent to which this authority is used has decreased with the increase in berthing barge spaces, will decrease further in the future, and is predicted to reach a steady state level by 1985, there will always be a need to reimburse personnel at overhaul sites where no government quarters or berthing barges are available. To provide for this requirement, Navy strongly urges that this authority be extended and made permanent.

B. Dental CHAMPUS

The addition of dependent dental coverage under CHAMPUS would provide an important addition to the compensation of the military member. It would provide a benefit package which is competitive with that offered by an increasing number of civilian firms, thus enhancing military service as a career. Additionally, it will contribute to the reduction of dental disease and defects which are a major health problem in the military community.

C. G.I. bill termination date

As the December 31, 1989, termination date for use of the GI bill draws closer, the services are losing experienced people who choose to leave active duty to use their earned educational benefits. Over 250,000 Navy members currently on active duty are eligible for GI bill educational benefits. Of these, about 195,000 are in the critical retention window of 5 to 14 years of service. The requirement that these individuals leave the service early in order to use these benefits is not only detrimental to the services priority retention programs, but unduly penalizes those who serve their country in a military career. It is therefore most strongly recommended that the termination date be extended to provide a servicemember with ten years after discharge or release from active duty in which to use his earned benefits.

VI. CONCLUSION

The demonstrated support of the Congress for military compensation has enabled the Navy to turn the corner on recruiting and retention. I am most confident that your continued support will allow us to sustain the positive trend and will result in a Navy which is prepared to meet the challenges of the future.

Senator **Jepsen**. Senator Denton, do you have any opening statement or any remarks you would like to make?

Senator **Denton**. No, sir, Mr. Chairman. I will wait until they have all made their opening remarks.

Senator **Jepsen**. All right.

General Thurman, you may proceed.

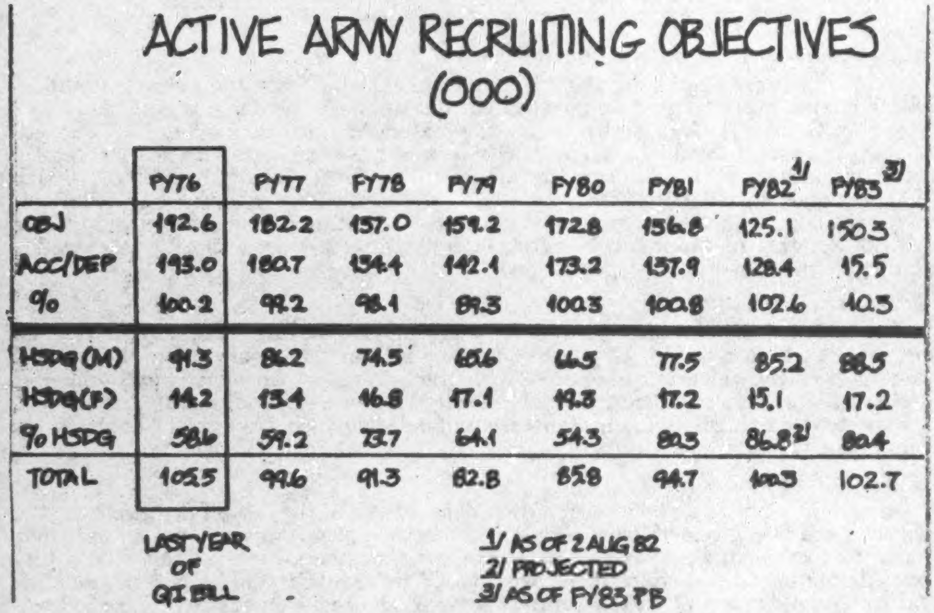
STATEMENT OF LT. GEN. MAXWELL THURMAN, USA, DEPUTY CHIEF OF STAFF FOR PERSONNEL

General **Thurman**. Good morning, Mr. Chairman.

I appreciate the great support of this committee for the military men and women and civilians of the U.S. Army, and we thank you for your support last year particularly.

I laid on your desk a series of charts, and I just want to talk about a couple of those, because as you indicated in your opening remarks, pay comparability, enlisted bonuses, reenlistment bonuses, education incentives are all very much at stake here. I would like to show you some of the results of what the committee support has done for the Army over the last year.

Chart 2



ACTIVE ARMY RECRUITING OBJECTIVES (000)

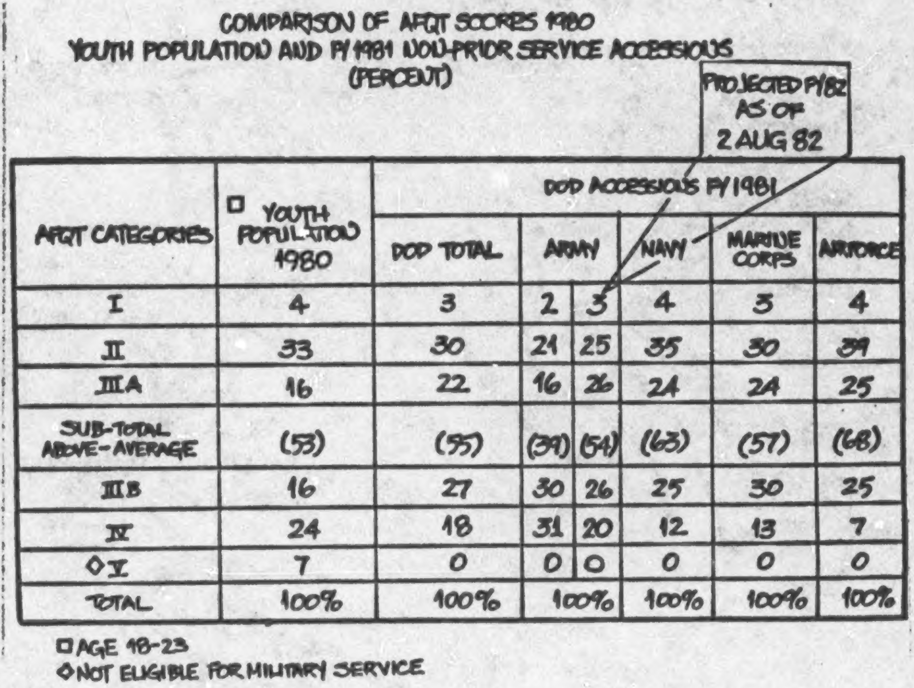
	FY76	FY77	FY78	FY79	FY80	FY81	FY82 1/	FY83 3/
OBJ	192.6	182.2	157.0	159.2	172.8	156.8	125.1	150.3
ACC/DEP	193.0	180.7	154.4	142.1	173.2	157.9	128.4	15.5
%	100.2	99.2	98.1	89.3	100.3	100.8	102.6	10.5
HSDG (M)	91.3	86.2	74.5	65.6	66.5	77.5	85.2	88.5
HSDG (F)	14.2	13.4	16.8	17.1	19.3	17.2	15.1	17.2
% HSDG	58.6	59.2	73.7	64.1	54.3	80.3	86.8 2/	80.4
TOTAL	105.5	99.6	91.3	82.8	85.8	94.7	100.3	102.7

LAST YEAR OF GI BILL

1/ AS OF 2 AUG 82
2/ PROJECTED
3/ AS OF FY83 PB

If you look at chart No. 2, and at the circle A, for the first time since 1976 the U.S. Army will take over 100,000 great young high school graduate Americans into the Army. The last year we did that was 1976 when the GI bill was at work; furthermore in 1983 we will be up over 100,000 again.

CHART 4



COMPARISON OF AFQT SCORES 1980
YOUTH POPULATION AND FY1981 NON-PRIOR SERVICE ACCESSIONS
(PERCENT)

PROJECTED FY82 AS OF 2 AUG 82

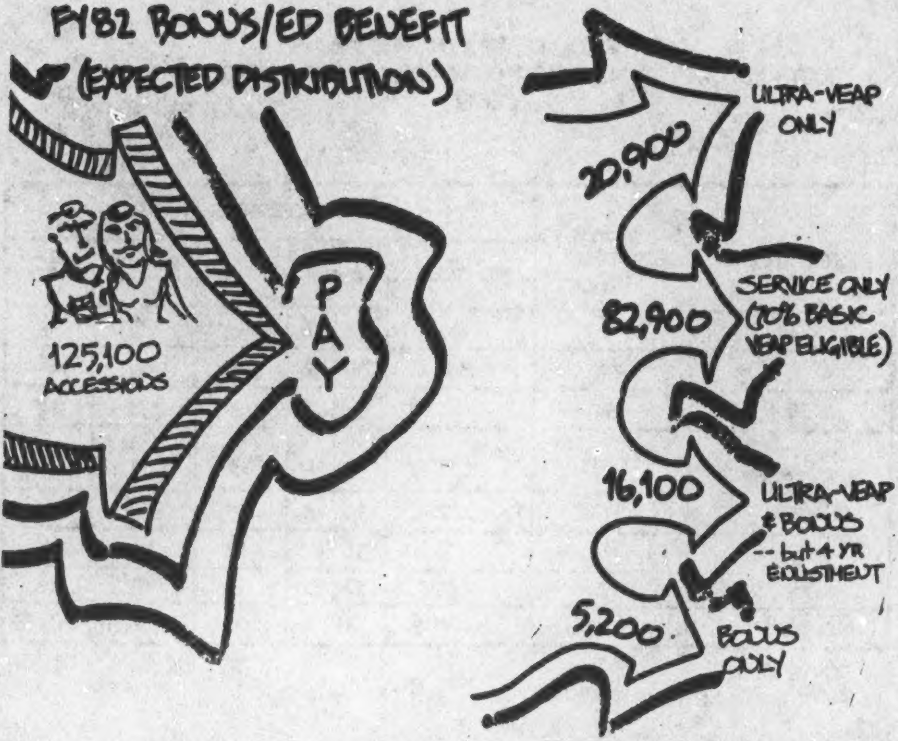
AFQT CATEGORIES	□ YOUTH POPULATION 1980	DOD ACCESSIONS FY1981					
		DOD TOTAL	ARMY		NAVY	MARINE CORPS	AIRFORCE
I	4	3	2	3	4	3	4
II	33	30	21	25	35	30	39
IIIA	16	22	16	26	24	24	25
SUB-TOTAL ABOVE-AVERAGE	(53)	(55)	(39)	(54)	(63)	(57)	(68)
IIIB	16	27	30	26	25	30	25
IV	24	18	31	20	12	13	7
◇V	7	0	0	0	0	0	0
TOTAL	100%	100%	100%		100%	100%	100%

□ AGE 18-23
◇ NOT ELIGIBLE FOR MILITARY SERVICE

If I could turn your attention to chart 4—this is one measure of quality—then on chart No. 4 yet another measure of quality. You may have seen these data before. Essentially the test score categories on the leftmost column and the youth population of America, I call to your attention that about 53 percent of the youth of America score over 50 on the entrance tests—in the upper half. If you look at the sequence of columns to your right, you will find the Army column and the left part of the Army column says in 1981 the U.S. Army took about 39 percent upper scoring youth. But with pay comparability, the enlistment bonuses, and the Veterans Education Assistance Program with kicker, this year the Army will take about 54 percent youngsters in the upper scoring half.

I am saying to you that the program that has been endorsed by this committee is working. If you will note, while the youth population has a national average of about 24 percent scoring in test category IV, in 1981 we took about 31 percent. You directed as a mandate that we come in at not more than 25 percent in 1982. We will hit about 20 percent in 1982 and next year the mandate is 20 percent in category IV, and we will make that next year.

CHART 7



Now, turn to chart 7, if you would, sir. Because you indicated that there are serious issues at stake on bonus, educational benefits, and the like, I took the 125,000 accessions that we have coming in in 1982, and I broke them out for you to see how many of them have taken advantage of one or more of the options. For example, on the educational assistance, the ultra-VEAP, about 21,000 recruits receive ultra-VEAP only. Eighty-three thousand people came in with no bonuses or opportunity for the ultra-VEAP. A population of 16,100 had the combination of those two items; but in all of those cases we pulled through to a 4-year enlistment with those young men and women, and finally about 5,200 took bonuses only.

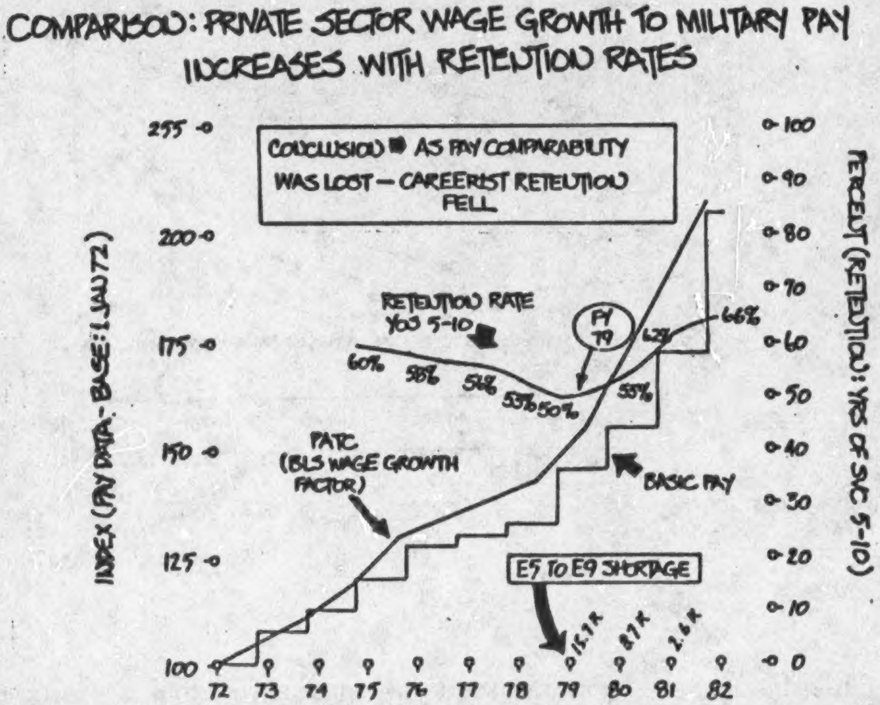
That tells you that while there may be a mixture of incentives out there, not every single person takes advantage of every single incentive. A mixture gives us the opportunity to approach the marketplace.

Senator JEPSEN. Excuse me, General. Please stop right here.

General, in your opinion are potential new recruits responsive to pay adjustments at the E-1 levels?

General THURMAN. In my experience as a recruiter for the 2 years before I took this particular job last August, most young men and women who come into our recruiting stations or were contacted by our recruiters at the outset do not know what the base pay of an E-1 is. In other words, $551 is the base pay of an E-1, and that number is not well known in the American public. If they are sensitive to it, I would say they are less sensitive to it than our senior noncommissioned officers and careerists who are very much sensitive to pay comparability.

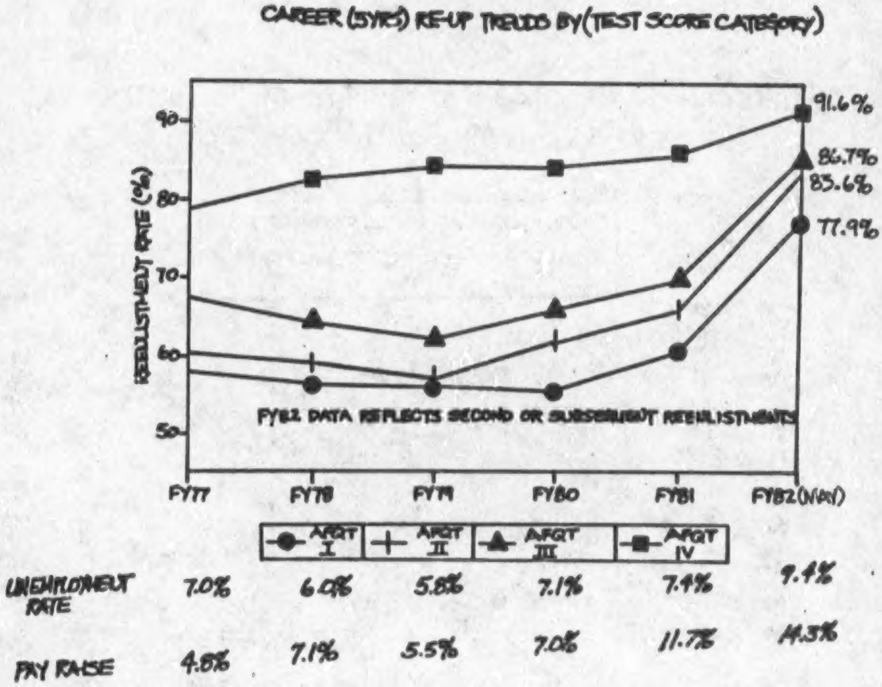
Chart 10



If I could turn you then on the subject of pay comparability to chart No. 10. It shows you the track record over time that, as General Iosue indicated, bottomed out in 1979, and that ladder effect in the center of that chart represents what the pay raises were in those days. It indicates that for the Army in 1979, we were some 15,000 noncommissioned officers short. If you look dead center in the chart, it shows you what happens with NCO's, at least in the Army, when pay comparability slips.

Back in 1974 and 1975 about 60 percent of the senior noncommissioned officers were reenlisting, and that dropped off to 50 percent by 1979. The NCO force is very sensitive to pay comparability.

CHART 11



Then lastly, sir, if you just turn one page over, I took a profile of all of the noncommissioned officers by their entry test category scores. You will notice the people most sensitive to pay comparability are the ones who score highest on the tests. That should not surprise us. The people of very high quality who were either technical or leadership skills are the people most susceptible to departing the service when we do not keep pay comparability going. That chart illustrates that particular phenomenon.

Lastly, I would like to make a couple of points. One is, I would speak for the need to make PCS pay corrections as a "cost of doing business" as General Iosue mentioned. I would like to call your attention to one specific provision of law that I am afraid will slip under the rug if we are not careful. That is, on September 30 this year, the Selective Reenlistment Bonus terminates.

Now, I know that you are considering extending that, but all of us will be "in the soup" on reenlistments if we do not get an extension of that program. If we go under a continuing resolution authority, we need a specific provision saying that we may continue to pay the selective reenlistment bonus effective October 1 of this year because it explicitly terminates on September 30 of this year.

Senator **JEPSEN**. We are aware of that, General, and we can assure you that we are looking into it and will be acting on it.

General **THURMAN**. OK. Thank you, sir.

One other point is concerning the Individual Ready Reserve. We have asked that we be allowed to extend the minimum service obligation from 6 to 8 years, and we commend that as an opportunity to help improve the status of the Individual Ready Reserve. We have asked for a modest reenlistment bonus for the Individual Ready Reserve, and we ask favorable consideration for that.

Again, thanks very much to the committee for support of the great young Americans who are serving in your Armed Forces.

Thank you, sir.

[The prepared statement of General Thurman follows:]

PREPARED STATEMENT BY LT. GEN. MAXWELL R. THURMAN, DEPUTY CHIEF OF STAFF FOR PERSONNEL, U.S. ARMY

It is a pleasure to appear again before this Subcommittee to address the issue of pay, bonuses and benefits. Let me state for the record the basic thoughts of the Army manpower management philosophy which are:

Fill the Total Force with people possessing the appropriate skills.

Improve the quality of accessions.

Improve and align the career force.

Build stability and foster cohesion in units.

Attaining these goals requires a proper balance of pay, bonuses and benefits. It is absolutely essential that the support which this Congress has given to the Army continues in order to maintain the current momentum in recruiting and reenlistment success. For a number of reasons, we are doing well attracting and retaining the kind of men and women needed by our All Volunteer Force in an increasingly technological society. The efforts by this Congress to provide an adequate, indeed, attractive package of compensation, bonuses and other service related incentives have played a large part in today's success story.

But so has the economy. We must recognize that as the economy begins to improve, success at recruiting and retention will not come easy.

I want to say a few words today about enlistment bonuses, compensation comparability, reenlistment bonuses, educational and other benefits and the interrelation of elements of these in support of our manpower management philosophy.

Singly or in combination, pay, bonuses and benefits attract, retain and reward high quality soldiers.

The contribution that each makes is not constant across a soldier's period of service, nor is the contribution the same for all soldiers at the same time in their service.

THE ENLISTMENT BONUS

We must first fill the force with quality personnel who are trained in appropriate skills. The enlistment bonus program is a vital part of our recruitment efforts. Bonuses are management tools which are offered to attract and distribute quality individuals in critical skill areas. Let's look at the facts:

In fiscal year 1979, the Army fell 17,000 short in total enlistments. Due in large part to an expanded enlistment bonus program and pay raises, we have not fallen short since.

The Army pays up to $5,000 for test score category I–IIIB enlistees who volunteer for combat arms or selected other critical skills for a period of 4 years.

We began the congressionally mandated Enlistment Bonus Test on 29 June 1982 which should determine whether refinements to the program including bonuses of up to $8,000 are indicated.

Quality in combat arms has improved markedly, both in percentage of high school graduates and in the percentage of test score category I–IIIA personnel.

The fact that the enlistment bonus attracts a higher quality enlistee has other advantages in terms of: Greater cost effectiveness through reduced attrition; reduced force turbulence; lower accession requirements.

The number of budgeted bonus recipients in fiscal year 1983 is 26,000 versus 21,000 in fiscal year 1982. Compared to total accessions, the percentage increase is from 16.5 percent in fiscal year 1982 to 17.3 percent in fiscal year 1983.

The amount requested for fiscal year 1983 enlistment bonuses is $140.9 million compared to $101.9 million for fiscal year 1982. Recruiting success alone is not enough.

RELATIVE PAY LEVELS

Notwithstanding the significant influence of the enlistment bonus, we have also found that a soldier's propensity to enlist or reenlist is very sensitive to relative pay levels. Military pay increases approved for fiscal year 1981 and fiscal year 1982 returned pay to rough parity with private sector pay changes.

In this respect, the Army pay must remain competitive over the long term. The DOD has acknowledged the need to maintain this basic thrust in compensation levels.

The various private sector wage growth factors upon which military pay adjustments are normally based have increased by eight to ten percent in the past year. Should the Army's pay raise for fiscal year 1983 be less, we would expect to lose some quality enlistees.

Of even more importance to us at this time is the effect of continuing pay restraints on retention of our NCOs. The soldier who is completing his first or second enlistment has been trained, and has assumed vital leadership responsibilities in the enlisted force. But if a soldier approaching this stage in his career perceives a developing or continuing lack of adequate compensation, we are likely to lose him—and with him, his experience and technical expertise. We find that this occurred during the late 1970's, affecting our NCO retention.

THE SELECTIVE REENLISTMENT BONUS

The Selective Reenlistment Bonus is another vital contributor to success of our manpower management philosophy. The SRB provides an incentive for reenlistment into positions which have perceived disameneties, such as the combat arms—or for which there is substantial competition for scarce skills between the military and private sector. It enables the Army to target on critically short skills through the attraction and retention of qualified soldiers in the MOSs for which they are trained.

Through use of the SRB, the combat arms migration rate, where soldiers reenlist out of the combat arms, dropped from 26.2 percent in fiscal year 1981 to 10.5 percent in fiscal year 1982 through the end of May. Since the combat arms SRB program was curtailed by funding shortages in May, a rise in migration has occurred, amounting to 18 percent in June and 27 percent in July. These facts speak very clearly for the efficacy of the SRB.

In fiscal year 1983, we expect 32 percent of all reenlistees to receive a selective reenlistment bonus. We are asking for new payments of $108.4 million in fiscal year 1983 versus $98.2 million in fiscal year 1982. This represents an increase of about 6,500 new payments. The SRB program is monitored very carefully. Since October 1981 when payments were made for 151 different MOSs, the number has been reduced to the present level of 36 MOSs. This reduction was driven in part by focusing our constrained resources on the most critical skill requirements. The fiscal year 1982 budget provided $8.7 million less than required for the year.

Using the SRB, in combination with the pay increases in fiscal year 1981 and fiscal year 1982, the Army has made great strides to reduce its NCO shortage. We project that our total shortage will be eliminated by the end of fiscal year 1983 with the exception of about 700 intelligence skill spaces. The Army will have been well served by the SRB program.

EDUCATIONAL BENEFITS

The educational benefits provided by the ULTRA-VEAP program and by the Vietnam Era GI bill have attracted intelligent men and women to the Service. The entire Army has benefitted by the presence of these soldiers, whether they choose to make the Army a career, or decide to return to civilian life and to school at the end of their enlistments.

We strongly support extension of the 1989 GI bill termination date, both to preclude any exodus of personnel and for the simple sake of fairness to those career personnel who earned that right during a period of hostilities and who may someday choose to use it.

OTHER BENEFITS

Finally, there is a need for adequate reimbursement for travel expenses as a result of permanent change of station moves. The $1.2 billion in our fiscal year 1983 budget is a cost of doing business. We have achieved some significant savings, but PCS costs have risen because we are redressing the inequities in movement compensation. Still, there are costs which are unfairly borne by soldiers. For fiscal year

1983, funding to increase mileage rates for soldiers and family members ($35.8 million), and to increase household goods weight allowances ($27.5 million), are among initiatives to correct this problem.

In summary, attaining the goals of the Army manpower management philosophy requires:

Bonuses which assure quality people are recruited for critical skills.

A pay scale which is competitive over the long term, both to attract new personnel and to retain trained, skilled, soldiers.

Bonuses which encourage reenlistment for critical skills.

Educational benefits which attract the best recruits and reward the veteran.

A balanced set of other benefits which make military life attractive for all members of the Armed Forces.

Thank you for this opportunity to come before you. This concludes my statement.

Senator JEPSON. Senator Exon, do you have any remarks?

Senator EXON. No. I apologize for being late, Mr. Chairman. I consider this a very important meeting, and we appreciate you gentlemen coming here to give us your testimony today. We will also be hearing from GAO and others.

We heard from the Corps the other day in our previous hearing, and I think that we generally are following down a road of general understanding of the challenge in front of all of us in this personnel area.

We obviously are not going to have all of the money that we all would like to have in this critical area of manpower and personnel needs. Therefore, I think it is very important that we all try and work as best we can toward using the available revenue that we have and put it to the best possible test.

I will have some questions later on in the hearing.

Senator JEPSEN. Thank you, Senator.

Secretary Korb stated in his testimony that the most likely future manpower problem in the Army would be recruiting. Do you agree with this assessment, General Thurman?

General THURMAN. Well, the youth cohort will decline substantially between now and 1992. In the near term, like 1983, I do not perceive that recruiting will not be the principal issue. I think we can meet our goals in 1983. I believe we can meet the 65-percent marks on high school diploma grads that you gave the Army and the 20-percent Category IV provided we have the enlistment incentives and maintain the Ultra-Veap with kickers which is currently doing a dynamite job for us in the marketplace.

Senator JEPSEN. In your opinion with the tight budgetary problems we find ourselves in, do you prefer to see availability or available pay raise money targeted to the career force in order to avoid the adverse impact of a pay cap and preserve rough comparability for the career force?

General THURMAN. The Department of Defense position is to have a 4-percent across-the-board raise, sir. Did you ask me for my personal opinion?

Senator JEPSEN. Yes.

General THURMAN. My personal opinon is to speak for targeting. Let me tell you why. It is because the noncommissioned officer population is highly sensitive to comparability. We find that if you do not maintain it, smart NCO's exit. Since we are already targeted on bringing, for example, another 100,000 young men and women who are high school graduates into the Army next year, then the tradeoff in the case of the Army, since the number of high school grads is somewhat fixed, is between retaining very high quality noncommissioned officers and recruiting more nonhigh school graduates. Our calculations show that we will lose about 4,000 enlistments or 4,000 reenlistments in 1983 based upon a 4-percent cap, and over time that would get up over a 5-year period to about 20,000 people. The tradeoff for this is nonhigh school, untrained people as opposed to very highly trained, highly skilled, noncommissioned officers. That is the reason we speak for pay targeting. But I know what the Department of Defense position is, sir.

Senator EXON. Would you yield on that, Mr. Chairman?

Can I jump in here? On that particular point, which we covered to some extent in our previous hearing, I would like to ask the rest of our panel what their personal opinion is. We know what the Department of Defense's position is. It was very well stated by the General.

Could I ask the other three members of the panel what their personal opinion is on whether we should target or whether we should go to 4 percent across-the-board?

Admiral?

Admiral ZECH. Yes, sir. As you said, Senator, the Department of Defense position is well known. Of course, the official Navy position is to support that position.

My personal opinion is, and has been to support targeting. I believe that our biggest problem in the Navy is the retention of career personnel, the senior people. Over the past 10 or 15 years the pay of our senior enlisted personnel has been significantly reduced comparison with that of our junior personnel.

A number of years ago, the order of the compression ratio was between 6 and 8 to 1. Today it is closer to 3 to 1. In my view, our most significant problem is retaining our career enlisted personnel as well as our midgrade officers. Therefore, targeting in order to achieve a higher level of pay for our senior and our career personnel is probably the most important part, in my view, of planning a pay program. I believe we retain the comparability attained in the past 2 years, and I believe this is the time to focus on improving the pay of our senior personnel. So I personally favor a targeting scheme.

Senator EXON. General Iosue?

General IOSUE. I stated my position earlier which is also, by the way, the Air Force's position; and we recommend an across-the-board pay raise. And the reason I say that is I just do not see the value of taking a 4-percent raise and trying to target that from E-1 through E-9. I think what you are going to find is that you will have zero at the E-1 and E-2, and then you are going to go at most at 4, perhaps rather 5, or perhaps 6 percent. And I do not see the value in improving retention by going 1 or 2 percent, because what you are doing now is depriving those 165,000 we have, and perhaps defensewide 500,000, junior enlisted personnel who are having a hard time. We are going to deny them any raise whatsoever.

And I think if you were talking about an 8 or a 9-percent raise, which is necessary for comparability, I would then favor targeting. I just do not see the value. I think you do more harm than good by depriving those junior enlisted members of a pay raise.

Senator EXON. General Cooper?

General COOPER. I would agree with General Iosue. The Marine Corps would endorse the 4-percent across-the-board for essentially the same reasons.

I might point out that 50 percent of the Marine Corps are lance corporals and below, and we feel that first-term retention is affected. As a former recruiter myself, I do think the advertisement of that starting pay is a rather significant factor on the procurement cycle. However, if we had a larger comparability percentage, I would think that targeting might be a more effective way than across-the-board, but with a small percentage that is less than comparability I would recommend across-the-board, sir.

Senator EXON. If I might say, Mr. Chairman, as one who has been insisting, and certainly everyone in this room knows that the targeted pay for last year basically came out of this subcommittee, and we followed it through over some very heavy opposition, including some places in the Pentagon and indeed in the administration.

It is very interesting to me, Mr. Chairman, to see the two services here that have had the least problems with recruitment and possibly retention, advocating a 4-percent-across-the-board pay raise, and those two services that have had some difficulties coming back to targeting.

Last year, and maybe this year I have always felt that maintaining that cadre of higher noncommissioned officers, and then of course into the officer rank, for a strong cadre was the most important thing we had to do.

I would like to have General Thurman and Admiral Zech, though, respond to my concern this year that has been well stated by the last two witnesses that spoke that with only, and I emphasize only 4 percent, if we do much targeting then we are going to see certain categories left out altogether which I think is a major concern.

So at this time, this one Senator leads to the fact that since we are so lean on what we are doing, maybe 4 percent across-the-board as opposed to targeting is about the best way to do it.

Could you expand, again from your personal opinion, on that, General Thurman and Admiral Zech, because it is going to come down to the bottom line as to whether or not we are going to recommend targeting or whether we are going to go across-the-board.

General THURMAN. We have about 230,000 E-1, E-2, and E-3's in the U.S. Army. The calculations that I operated on contained a zero increase for E-1 and E-2, and by doing so I was able to take the E-5-E-6 population, principally because that is the break point at about 10 years of service, to attract them by maintaining as close to comparability of the 8 percent which is in the public sector. I would try to get the pay raise of E-5-E-6 in that age bracket, at about 10 years of service, as close as I could to the 8 percent. It came out as 6.5 to 7 percent depending upon how you cut the money.

At the same time I looked at officers at the grade of 03 and 04, in other words, those at the principal decision point which is about 10 years. I want to encourage them to stay with us at that particular point in service.

Again, I did recommend to the Secretary of the Army that we take into account pay targeting, recognizing that E-1's and E-2's would probably be denied a pay raise at this time, but that we are looking at this as a 1-year period. That is the grounds on which we entered into it, and we thought it was most helpful to go to targeting at that break.

Senator **Exon**. Admiral, would you care to add anything?

Admiral **Zech**. Yes, sir. We have about 180,000 E-1's to E-3's in the Navy. Originally my personal recommendation was to have the E-1's to E-3's get no pay raise, the E-4's get a pay raise of about 4 percent, and our career force, the E-5's and above receive a higher pay raise, on the order of 5 to 6 percent. My recommendation also included correcting a pay compression problem we have between senior enlisted and warrant officers status. In order to correct that problem, I recommend a pay raise for the warrant officers of 7.4 percent. For the rest of the officers, I recommended an across-the-board pay raise.

The intent was to focus on our senior enlisted community. As we reviewed the plan and looked at the numbers, it was apparent that targeting 4 percent would be difficult. We then had another option, which was to provide no pay raise for E-1 through E-3 and target the rest of it, which I believe, amounts to, around 4.3 or 4.4 percent.

These are the options we looked at. Again, I personally felt that targeting was the best method, but I recognize that because 4 percent is a small number, it was certainly acceptable and understandable to me that we would go to 4-percent across-the-board.

In spite of my preference for the alternative, I believe that if we pay the 4 percent, either across-the-board or targeted, that next year we should look at raising the pay back to comparability.

Senator **Jepsen**. Senator Denton?

Senator **Denton**. Mr. Chairman, I am not as experienced as you and our distinguished colleague from Nebraska in this, and I am admitting that I am going to be playing catchup ball. I often didn't know what my base pay was, as I am sure the four officers testifying this morning don't. So this might be amateurish, but do all four of you agree, first, that we have achieved a near comparability within the services versus civilian life?

Admiral **Zech**. Yes.

General **Cooper**. Yes.

General **Thurman**. Yes.

General **Iosue**. Yes.

Senator **Denton**. Second, do you agree that once that has been achieved, it would be desirable to have some kind of rate of increase or decrease reflecting what the Navy, Admiral Zech, has represented as the employment comparability index or something like what he has? Do you all agree with that?

Admiral **Zech**. Yes.

General **Cooper**. Yes.

General **Iosue**. Yes.

General **Thurman**. Yes.

Senator **Denton**. And would you all agree that if you were to take a long-range view and then if you were within the different services, incrementally distributed among the ranks and ratings as you see fit, would you be able to retain your people considering the circumstances within your respective services, and then as the pay raises come along and you see the need for adjusting those increments—it would be up to you rather than us—would you agree with that?

General **Thurman**. That should be up to the Department of Defense, I would say, as opposed to each individual service. I mean there is some collegiality, at least in my view, about the fact that you are in the recruiting market or you are in the retention market, so you have to understand what the pay rates are across other services in order to come to grips with that.

Senator **Denton**. OK.

The last question is: Would you agree that we should try to remove from hazard whatever program the committee, and this subcommittee in particular, agree with you is valid with respect to reenlistment bonuses, rather than hazard that in years in which we have budget crunches and so forth?

Would it be a good idea over a long-term basis to assign a percentage, a sort of pro rated percentage, of the overall personnel costs within each service to that pot? In other words, have a pot that is proportionate to your respective entitlements, as it were, in terms of the regular pay, which include comparability and ECI? Would you think it would be possible?

Of course, I would have to ask the chairman and the other members, but from your point of view would you like to see that there would be a pot of money proportionalized some way to the overall personnel costs, which would insure that you would have something for these reenlistment bonuses rather than have them be the thing that goes up and down violently as some budget crunch forces us to go one way or the other? Am I clear on that?

General **Iosue**. I understand what you are saying. I think it is very difficult to apply a percentage of your entire military account, pay account, and then take 5 percent or 7 percent per year and devote that toward bonuses, because I think what we have is fluctuation. I think you will find that, with good retention such as you have now, the amount of money necessary for bonuses would be far less than that that would be necessary in 1978 and 1979. We may have to exceed that more than——

Senator **Denton**. Then, would all four of you agree that that should be one variable to which you should come to Congress every year and ask for——

General **Iosue**. From the Air Force's standpoint, I think we should identify the critical skills and then identify the number of dollars necessary to retain those individuals.

Senator **Denton**. OK. That is all I wanted to ask.

Now, may I ask you, Mr. Chairman—you all are the ones who have achieved this comparability for them and you are the ones who have achieved at least the consideration of the ECI—do you feel right now that that is the way to go now that we have comparability, to have some kind of adjustment like the unions do and the Federal workers do and so forth and just build it in from here, and then we don't have to labor every year and argue about something we all feel about the same about?

Senator **Jepsen**. You are a very key person on this subcommittee, and that is right on target. Therefore, because you have indicated the desire and expressed an interest in this, we will surely do that.

Senator **Denton**. I just wondered if that wasn't the way you were doing it already. Thank you, Mr. Chairman.

Senator **Jepsen**. General Cooper, thank you for your patience. It is by no means any type of hierarchy on a scale of one form or another. I have members here on the subcommittee and I have learned that we should start questioning early because we are trying to put 10 hours of work and there are 24 hours of work in 18-hour days, sometimes.

General, you may proceed and then we will go into general questioning again.

STATEMENT OF LT. GEN. CHARLES G. COOPER, DEPUTY CHIEF OF STAFF FOR MANPOWER, HEADQUARTERS, U.S. MARINE CORPS

General **Cooper**. Thank you, Mr. Chairman and gentlemen. I appreciate your comments, sir.

I am a former legislative liaison for the Marine Corps who has had the good fortune of being in command of troops for the last 5 years and, as you know, I just returned to this fair city. I would like to thank this committee for confirming my appointment as lieutenant general just last week.

In the few days I have been in this job, my staff has worked mightily to pump me up on all of the Marine Corps manpower issues and help me prepare the statement that is now in the record.

I would like to take just a moment, not so much as a manpower manager in my current assignment, but as a former commander who led the First Marine Division at Camp Pendleton, was commander of the First Marine Amphibious Force, our Air-Ground Logistics Team on the west coast, was commander of a recruit training depot, a recruiter for training, and also a post commander, all in the last 5 years, to make five brief points about these special pay provisions that we are discussing, sir.

First, I feel that there is no substitute for experienced and high quality marines. We have made tremendous strides in the last 7 years in that direction, and the selective reenlistment bonus program enables us to keep our best marines and guide them into our most critically short fields. It is working, and from fiscal year 1980 to 1981, our reenlistments increased 42 percent, and we have reduced critical shortages by almost 20 percent.

We would like to keep this tool and encourage you to let us keep it as the main tool we have in carrying out our job by maintaining high reenlistments.

Second, we need to make sure that our marines do not have to draw an advance on their pay or to deplete their savings when they are transferred from one station to the other. Today's reimbursements for these moves is simply inadequate.

Third, the Marine Corps must continue to recruit high quality people, and we ask you to maintain the enlistment bonus program for the very important role that it plays here. For a rather modest outlay, we feel that we are attracting topnotch men and women for enlistments of at least 4 years in our critical fields.

Fourth, and I know this is one that is subject to very close scrutiny at this time, we feel strongly that we must retain more of our pilots and naval flight officers. Since the aviation officer continuation pay program began last summer, we have reduced our aviator shortage to within 5 percentage points of our requirements. We must continue to improve in this area.

The Marine Corps is introducing three new aircraft into its inventory, the F-18, the CH-53 Echo, and the advanced Harrier, and we need all the experienced pilots we can get. We ask that you extend this program.

Finally, the key to attracting and retaining high quality marines is the pay system which provides long-term assurance that compensation will be comparable to that for similar types of work in the private sector, and a comparability pay standard is absolutely essential. So, I strongly endorse the recommendations of the recent Joint Service Committee that military pay raises for the future be tied to the Employment Cost Index.

These are the five issues, Mr. Chairman, that the Marine Corps stresses, and I am exceptionally happy to be here with you today and respond to any of your questions. Thank you.

[The prepared statement of Lt. Gen. Charles Cooper follows:]

PREPARED STATEMENT OF LT. GEN. CHARLES G. COOPER, U.S. MARINE CORPS, DEPUTY CHIEF OF STAFF FOR MANPOWER, HEADQUARTERS, U.S. MARINE CORPS

Mr. Chairman, distinguished members of the Subcommittee, I am Lieutenant General C. G. Cooper, Deputy Chief of Staff for Manpower, Headquarters, Marine Corps. It is a privilege for me to appear before this Subcommittee to give you the views of the Marine Corps regarding various pay and personnel matters.

Because of the efforts of the Congress in general and this subcommittee in particular, military compensation is now at, or near, comparability levels with private sector wages, and the results are apparent. That level of relative parity with the private sector has, in my estimation, been instrumental in our success in attracting and retaining quality personnel.

Every effort should be made to retain this relative position so that our people can feel confident that a career in the military will provide a reasonable standard of living for themselves and their families. They need this sense of confidence to justify the personal and family sacrifices that are part of the twenty to thirty years, and sometimes more, that careerists devote to the Nation's defense.

The key to maintaining pay comparability is to establish a military pay raise mechanism tied to the Employment Cost Index (ECI), strongly recommended by a recent joint service study group, which reflects wages and salaries for comparable types of work and levels of responsibility in the private sector. This would take advantage of insights gained during previous pay studies, which concluded that military pay relative to civilian opportunities is a major determinant of the services' ability to attract and retain qualified personnel.

A matter of considerable concern to military personnel during the execution of Government-ordered reassignments is the high cost of today's travel, a significant part of which is subsidized by the individual. Legislation is needed to insure that our people are fully reimbursed for the average costs they experience when we order them from one place to another. Military people find it particularly difficult to understand the present inadequate reimbursement when they realize that their employer—the Federal Government—provides substantially more to civilian Federal employees when they are transferred. We should stop requiring the service member to pull from his savings, if he has any, or draw an advance on his pay in order to comply with change-of-station orders. A similar need exists for increasing allowances designed to cover the cost of dependent travel and for authorizing increased weight allowances for household goods shipments.

Adequate reimbursement is also required for individuals who are subjected to additional expenses because of job assignment or location. For example, the rates for

Special Duty Assignment Pay provided to personnel on recruiting duty in all of the major population bases throughout the country have not changed since 1958. Seriously eroded by inflation, this pay no longer adequately satisfies the purpose originally intended; that is, to help cover the added expenses inherent in an assignment to independent duty at locations distant from military installations, and to serve as an incentive to attract highly qualified volunteers for recruiting duty.

Another example of special pay that has remained unchanged for many years is the Family Separation Allowance (FSA), the purpose of which is to help the serviceman cover the additional expense of maintaining two households when required to serve in an unaccompanied status. FSA rates have not changed since 1963. Rates should be increased to levels that more closely approximate the expenses that the allowance is intended to offset.

The Selective Reenlistment Bonus Program (SRBP) provides the Marine Corps with a flexible and efficient management tool to increase retention and encourage lateral moves into critically short skills. Results have been dramatic. Reenlistments in the Marine Corps increased by 42 percent from fiscal year 1980 to fiscal year 1981, and we have reduced our critical skills shortage by nearly 20 percent during the same period. The trends are continuing during fiscal year 1982.

As an example of the effectiveness of the bonus, in fiscal year 1980 we had only 70 percent of our requirements for systems programers, a highly technical skill in the computer field which is in great demand by civilian employers. During fiscal year 1980, this skill was on an SRB multiple of 3 in Zone "A" and 4 in Zone "B". Twenty-one marines were eligible for reenlistment during fiscal year 1980, but only four were retained.

In fiscal year 1981, the Zone "A" multiple for the skill was raised to 5 and Zones "B" and "C" were authorized a 6. Twenty-five marines were eligible to reenlist during fiscal year 1981 and 15 were retained. As of February 1982, systems programers were at 97 percent of requirements.

Selective reenlistment bonuses are part of a process that starts with accessing quality marines at the entry level and directing those who are qualified into skills where they will be needed, maximizing retention, in part through continued use of the SRB, and increasing lateral moves by reenlistees from occupational fields where we have sufficient marines to short fields for which they are qualified.

The Enlistment Bonus Program is a timely, flexible, and efficient means to improve the enlistment of certain high school graduates for training and service in critically short skills and to infuse necessary high quality personnel into selected combat arms skills. Bonuses are timely and flexible, because the dollars can be applied directly to specific critical skill shortfalls at the time the shortfall is identified. They are also efficient, because for a small cost the applicant enlists for four years, one year over the minimum Marine Corps enlistment, with less attrition and no built-in incentive to get out. We have requested a modest enlistment bonus program increase from $10.9 million in fiscal year 1982 to $14.3 million in fiscal year 1983 because of concern over our present and projected shortfall of high quality enlistees. This shortfall is based on the decline in the availability of high school graduates meeting certain criteria, a recent disconcerting trend of a decrease in some of the highest quality enlistees, and continually increasing requirements to operate and maintain today's weapons systems and equipment.

We consider that the authority for payment of enlistment bonuses at the requested modest increase must be continued for fiscal year 1983 in order to enlist the required numbers of high quality recruits in the most cost effective means available.

The Aviation Officer Continuation Pay program has been highly successful for the Marine Corps. When we entered the program last July, we had a shortage of 353 pilots and 107 Naval Flight Officers. Through the application of this bonus incentive, we were successful in retaining 90 aviators whom we believe would have left the Marine Corps had we not used the bonus, thereby increasing our inventory so that it is now within 10 percentage points of our requirement.

The retention of experienced pilots will be particularly important over the next few years as we transition to three new aircraft. It is imperative that we satisfy our inventory requirement with experienced pilots.

The program has proven to be cost effective. It's far more efficient to keep an experienced pilot than to train a new one. In order to maintain the progress on pilot retention and allow us to fully meet our requirement, we believe that funding for the program should be continued. I can assure you that we will manage the program efficiently, and when we satisfy our requirement, we will be the first to come forward and request that the program be modified or ended.

We are convinced that the significant achievements made in recruiting and retention during the last 2 years can be sustained with continued emphasis on a military compensation system that provides the necessary foundation for efficient and effective force management. A comparability pay standard is absolutely essential to that system, and is my most immediate concern. It is the bed rock on which all other compensation rests, and I urge your continued efforts to establish such a standard that will be perceived by military members to provide a long-term guarantee of adequate pay.

Mr. Chairman, this concludes my prepared statement.

Senator JEPSEN. I am repeating myself, but I want to make sure for the record that we have it correct. General Cooper, did I understand you to say that new recruits are responsive to pay adjustments at the E-1 level?

General COOPER. Yes, sir, in my opinion. I was in charge of recruiting in the Western region of the Marine Corps for 2 years, and I suppose you might say it is a technique of sales that we advertise very strongly the starting pay in boot camp, and the fact that they were going to be out of circulation for some 11-plus weeks and couldn't spend their pay and how much would accumulate by the time they came home on their recruit leave. This is a rather important sales point.

Now admittedly, the young men and women coming in or being recruited did not know the extent of what pay they were entitled to, what raises were in effect, but it was a sales point that the recruiters would stress.

Senator JEPSEN. Having been in sales a good share of my life, I suppose you could make a creative sales talk about how much more money they were going to be making after they prove that they really wanted to be a marine and they had their training and they get that big increase at the end of the year.

General COOPER. I would say, sir, you could probably sell it either way.

Senator EXON. Depending on how good a salesman you are.

Senator JEPSEN. I want to discuss the targeting a wee bit more. The first concurrent resolution, although it is not in writing, essentially, in my opinion, indicates that we are going to be looking at a 3-year, 4-percent pay cap. I think that the planning and the thought out of the subcommittee is going to be made on that basis. If that were in fact absolute today and you knew that, General Iosue, would you still feel the same way about targeting as you do?

General IOSUE. The question is if you project out 4 percent per year for the next 3 years? I would first recommend against that.

Senator JEPSEN. I understand that.

General IOSUE. No, I think at 4 percent I would still opt for an across the board.

Senator JEPSEN. You know, with a 4-percent pay cap each year, you are talking about the 12-percent pay comparability and keeping the key career people.

General IOSUE. Well, if you are asking me this year or subsequent years for 3 years, now I would not recommend an across the board for 3 years at 4 percent. Obviously, if you only got 4 percent, if you have $2.5 billion, $3 billion in the kitty to disperse, then obviously you won't have to target the pay later on. But I am saying, given the condition of this year with 4 percent and given some kind of catchup, either in the next year or the following year, that I think we should go across the board this year.

Senator **Jepsen**. Would anyone else have any comment on that? I guess, General Cooper, if we had to work and plan on that basis, would that alter your opinion as far as the——

General **Cooper**. No, sir. I believe that I will stick with the 4-percent across-the-board this year, bearing in mind that half of our Marine Corps would be cut off if we targeted above E-4. I mean up to E-4 and above. But I would reserve judgment on the subsequent years, sir, until next year because I think that there are so many imponderables that we just couldn't anticipate.

Senator **Jepsen**. Half the Marine Corps. Your statement was that 50 percent of the Marine Corps is in a grade of E-2 or less?

General **Cooper**. Lance corporal or below sir. E-3 or below.

Senator **Jepsen**. Well, we are not talking about E-4's or E-3's. We are talking about E-1's and E-2's. We are not talking about any more than 12 months.

General **Cooper**. Well, sir, I suppose I used the figure primarily just to indicate that we have a predominantly very junior service and an awful lot of our troops are——

Senator **Jepsen**. You see, the people we are talking about with this targeting, when we talk about E-1's and E-2's are people you don't have, and you can't renege on a promise to someone who is not in existence.

General **Cooper**. Sir, I would say that I would not go for an across-the-board pay raise for the 3 years each at 4 percent. I would think that we would have to resort to targeting after the first year if that were a fact, but I feel at this particular moment, though, that we should stick with the across the board.

Senator **Jepsen**. But if it became a fact and we felt strongly or had reason to believe that it was going to be, then would you still want to go 4 percent this year and then start to play with the comparability figures and targeting on the second and third year?

General **Cooper**. Yes, sir, that would be my choice.

Senator **Jepsen**. Well, there is considerable evidence that both the size and rate of increase in pay varies substantially when relevant segments of the employed population are compared. For example, according to data from the current population survey, historical rates of growth of the younger and less experienced male full-time workers aged 16 to 19 has lagged behind the average rate of increase for the full-time employed males aged 25 or over.

Gentleman, at a minimum wouldn't it appear to make sense to propose differential raises between recruits and career personnel to better conform to the principle of comparability with the private sector, since these are facts for the private sector? Would anyone care to comment on that?

General **Thurman**. Well, that is my line. Our first duty is to retain the key noncommissioned officers. They are very susceptible to the general population unemployment indices and the like. Therefore, we must maintain pay comparability with that group. If you said that we were going to have a 4-percent pay raise cap for the next 3 years, obviously we should move into targeting. Otherwise, the noncommissioned officer corps would be terribly disadvantaged.

Senator **Jepsen**. From the responses we had last year, it seemed to me that had we announced and our career people knew that there was going to be a 4-percent cap for the next 3 years, then you would have a potential of having that undesired mass exodus and at least talk about it. I think that would be most devastating to morale, and that is just one person's opinion.

I am trying to understand some of the rationale and the thinking. General Iosue, just out of curiosity, last year I was advised at one time that we shouldn't target pay raises because there would be a mass exodus of top sergeants because they would feel that that was such a good, big pay raise that they got, that it would be the last they would ever get, and therefore they would leave. That statement was made by someone in the Air Force.

Did that turn out to be true?

General IOSUE. No, sir. I did not make that statement.

Senator JEPSEN. Oh, I know you didn't.

General IOSUE. I don't know who that individual is, but I hope he is not in the Air Force.

Let me make a comment on this targeting versus across the board. I just feel that given so much money, that it is difficult to go out in the field and sit down with a group of junior enlisted personnel and tell them that they got an E-2 or E-3, tell them they got a zero pay raise. They look at you and they say, OK, giving to the rich and taking from the poor. They say, why couldn't we share in that pay raise, we have families. They have dependents. They do travel. We don't provide household goods coverage for them. We don't provide travel for their dependents. They take that upon themselves when they are directed to go from one point to another. It is very difficult for me to explain.

I recognize, given more than that and given comparability, that yes, we need to target. But for retention's sake only we need to target and to relieve compression. But you are not going to relieve compression, and I doubt very much if you are going to improve retention with 1 more percent for E-5's or E-6's than you would give to an E-4.

Senator JEPSEN. Well, we are going to work together with you on this, of course. I just cannot imagine in the first 12 months—and that is all that we ae talking about. We seem to get into the second 12 and the third 12, but the first 12 months is what we are talking about in this, that we are pointing toward. And if you have got recruits debating about whether pay is comparable or not, I think there is something wrong in their basic training. That is just an opinion.

Senator Denton, do you have any questions?

Senator DENTON. For the record, I want to say that I personally do not agree with the 4-percent cap. As I understand it, it was imposed when it came back to the Budget Committee as something to reconcile us with the figures.

But there is a basic misunderstanding, not shared by members of the subcommittee or the committee in general, I must say, that the country's well-being is somehow more important in its preservation at its present level than the Nation's security is and survival, in my understanding, and I think it depends upon two factors: Well being, which includes economic, sociological, educational, political; and security, which is protection of the Nation's territory and rights against external foes.

I believe the latter is the essential priority which has to be preserved, whereas the former can go up and down somewhat, and I don't think that there is an understanding of those two factors which are involved in survival by this body, which is understood widely enough to prohibit such disasters as 80 percent of the President's plan to build up, which has already been cut out of defense and resulted in the 4-percent cap that is necessarily being contemplated by the subcommittee to adapt to that. It is an institutional problem, in my view. That is just a personal opinion.

I would address a question to General Thurman. Among the issues being addressed as the subcommittee considers the fiscal year 1983 Omnibus Personnel bill is the ability of the President to prepare adequately against an unforeseen imminent threat to our national security in instances where for any number of valid reasons a declaration of national emergency would be considered advisable.

Currently the President's military authority, as you know, is limited to the callup of 100,000 selective reserves; that is, without a declaration of national emergency, callup of 100,000 selective reserves for a period not to exceed 90 days. The majority of the subcommittee agrees that we should increase that time period from 90 to 180 days and to provide the President with a stop-loss authority that allows for the emergency retention of critical skilled personnel during that same time period.

Last week before the subcommittee, Assistant Secretary of Defense Korb testified that the Department supports the inclusion of this proposal in the fiscal year 1983 personnel bill. Since, I believe, the Army is the service most affected by this proposal, it is critical to know of the Army's position on this measure.

General Thurman, do you support this measure with respect to readiness and contingency planning? I would add parenthetically that my reason for bringing all this up is not to necessarily prepare for war but to have men available to permit us to put troops in places or posture them so that we would not have a war or would not lose an interest or forfeit one without a war breaking out, or if one did, forfeit it that way.

General THURMAN. The Army would support both provisions, extending from 90 to 180 days on the reserve callup of 100,000, and we would also support the establishment of stop-loss authority at the time of the callup.

Senator DENTON, Thank you, General Thurman.

Mr. Chairman, I have a conflicting engagement and I must leave. Thank you.

Senator JEPSEN. Senator EXON?

Senator EXON. Mr. Chairman, I would first ask you, are we, in your opinion, about to conclude the testimony from the witnesses before us or are we moving into other areas?

Senator JEPSEN. We will be going into other witnesses, so this would be——

Senator EXON. Then I would like to talk a little about the aviators and NFOs, if I could.

Admiral Zech, the legislative history of the aviation bonus makes it clear that this bonus should be targeted to aviation specialties where it is most needed. At least that was the idea. I think you will agree that that was the idea. Maybe the idea was wrong in the first instance. I received a call from the Secretary of the Navy the other day explaining that what we do here in trying to address manpower needs, to target reenlistment bonuses into the areas where we are supposed to be critically short doesn't necessarily work out when you get onto the deck of a carrier or in the real world.

What is your opinion, Admiral Zech, on the targeting with aviator bonuses? Why shouldn't this bonus be targeted within the officer aviation community the way we targeted the Selective Reenlistment Bonuses in the enlisted ranks? It seems to me, Admiral, that the Navy's own figures show little or no shortage of NFO's in any of the service groups. You are familiar with the report that we have been presented with that somewhat questions the way the Navy has used the bonus money that we previously gave you on the basic assumption that it would go to aviators where we thought the shortages were.

Now, can you tell the committee what the position of the Pentagon is, what the position of the Secretary is, and if your personal opinion differs from those, put them on the record so we will try to understand. It is very difficult, I hope you understand, for those of us to sit here and try to parcel out the money based upon what previous testimony has been given to us with regard to needs and then to have a study done that indicates that the money seemingly was not used along the lines on the basis on which it was granted.

Admiral ZECH. Yes, sir, Senator Exon. I feel very strongly that the bonus was implemented in compliance with congressional intent. At the time we designed the bonus plan, we were literally on the edge of disaster in terms of aviator shortfalls. We were short 2,430 aviators, both pilots and NFO's. A period of exceptionally poor aviator retention had put us in a position where we really could not afford to lose a single aviator in the catagories of lieutenant, lieutenant commander and junior commander. This is where we targeted our bonus. This is where our shortage was.

We constructed the bonus plan around these very problems. The bonus plan focused specifically on those aviators with 6 to 9 years of service, who were leaving in large numbers. The plan called for an additional obligated service on the aviator's part of up to 4 years in order to get the bonus. Bonuses were paid to the more senior people at a lesser amount for a shorter obligated service.

It was necessary to pay the more senior aviators a bonus because we needed their experience, we simply needed to keep our experienced aviators as well as our junior aviators, and although the bonus is not necessarily as cost-effective for that senior group, it is indeed cost-effective. We feel that the results we have obtained from the aviation officer continuation program to date have validated the plan.

We projected originally that we would retain 358 aviators in 1981, and we actually retained 599. The plan was very, very successful. Some of the success can be attributed, perhaps, to decreased airline hiring. We acknowledge that. But most of it is because of the aviation officer bonus.

I would like to put in perspective how we look at the savings. As I mentioned, the bonus is cost-effective. The training replacement costs for fiscal years 1981 and 1982 for the aviators that we figure we would have lost would have been greater than $700 million. The bonus program itself for those 2 years cost us about $70 million. We feel this money was very well spent.

Aviator resignations are significantly lower now and retention is up, and what I think is most important, the officers who have signed up for the bonus are committed to remain in the Navy regardless of what happens in the airlines. If the airline situation improves, our people are now obligated to stay in the Navy. We are helping to keep not only the junior aviators that we need but we are helping to keep our experienced aviators, as well.

I would like to mention one anomaly that the General Acounting Office pointed out that we have corrected. That is changing the basis of the bonus from years of aviation service to years of active service. We agree that this should be corrected, and it has been corrected. This will prevent more senior aviators from receiving inordinately large bonuses.

In summary, Senator, I see the aviation bonus program as a very cost-effective one which has enabled us to turn the corner on aviation manning. Although the GAO did criticize some aspects of our implementation plan, their conclusion was that with some modifications, the authority for the program should be continued. I would say that the plan certainly has been successful. We need to continue the plan, and I urge your continued support.

Senator EXON. Well, Admiral, let me pursue this a little bit further with you. You are familiar with the fact that I made a request of the GAO to come up with a program that is headed, "Millions Spent Needlessly in Navy and Marine Corps Aviation Bonus Programs." I think none of us are quarreling with the fact that we had to do something and we did it.

Admiral ZECH. Yes, sir.

Senator EXON. When you testified a few moments ago, you said you targeted this. I don't believe you did target. Isn't it true that rather than targeting, you just said everybody that flies an airplane or flies in an airplane with 6 to 16 years of aviation service got a bonus?

Admiral ZECH. All aviators in the 6th through 15th year were eligible for the bonus. That is exactly where our shortage was. That is where we targeted.

Senator EXON. Are you telling me that you had equal shortages of both aviators and NFO's?

Admiral ZECH. No, sir. We had a greater shortage of pilots than of NFO's, but they were both short, and they are still both short in spite of the success of the program. NFO numbers have improved, as have pilot numbers, but we are still short.

Senator EXON. Well, we will get more into the GAO report when it comes up, and we may have some further questions which we will submit, Mr. Chairman, if you can respond, because I think we are all trying to be very, very fair here and do the right thing.

Admiral ZECH. Yes, sir.

Senator EXON. There is a feeling with this Senator that the Navy did not follow the intent of Congress. Maybe you followed what you thought was the intent of Congress. Maybe we didn't spell it out very well. But I don't think there is ever much question but that if we design a program and put enough money connected with it, and call it what you will, bonus or otherwise, that it has an effect. And I think that the overall thrust of the program has had a positive effect, as you have testified to here today.

Admiral **Zech**. Yes, sir.

Senator **Exon**. The question once again comes back to the shortage of overall money that we have to pay people whether they fly airplanes or carry a rifle, and all in between. How do we best use the money? That is what we are trying to get at. Thank you, Mr. Chairman.

Senator **Jepsen**. Thank you.

General Iosue, Admiral Zech, General Thurman, General Cooper, thank you.

Now, do any of you have a statement in closing that you would like to make in summary? General Iosue?

General **Iosue**. No, sir. I just want to thank again, one more time, the committee for their support.

Senator **Jepsen**. And thank you for your testimony, and please know that I was neither debating nor arguing at all with you on this, and I will look forward to visiting more with you about this, exploring this across the board. However, as you know, I am not really totally objective about it at this point.

General Thurman?

General **Thurman**. I thank the committee for its fine support. The Army is turning the corner. I think we are doing what you asked us to do, and we look forward to continuing to do the same.

Senator **Jepsen**. Well, your reputation as a recruiter and as one who is knowledgeable in recruiting and manpower issues preceded you here, and we are very pleased to have you and the committee looks forward to working with you.

Admiral Zech, it is always good to see you.

Admiral **Zech**. Thank you, Mr. Chairman. I appreciate the good work of this committee and I appreciate the efforts to use funds responsibly. We think we have done that in the Navy. I sincerely believe we have. We have done what we think this committee wanted us to do. We have been successful in both recruiting and retention. We have made improvements in our petty officer shortfall problem.

The aviation bonus, although there may be differences, certainly is a successful program. We sincerely believe we have done what Congress wanted us to do. We still have aviator shortages but we are improving, and I thank this committee for its dedication to the Navy, to all the services, and to our country.

I can assure you that we will continue to do our very best to serve our Navy and country and to help this committee in solving these very important problems because they are people problems, Mr. Chairman. In my view they are critical to the fiber and strength of our military forces. Your committee is addressing the security of our Nation and the future of our country.

These are very big issues on which we want to work with you in every way, and we certainly intend to do that.

We thank you, Mr. Chairman, for your continued work, for the work of your colleagues on the committee, and for your tremendous support for our country. Thank you, sir.

Senator **Jepsen**. General Cooper, your reputation very impressively preceded you as a manpower expert, as a recruiter who had been on the firing line and had done the job very well. We are pleased to have you here. Congratulations on your recent promotion.

Do you have any closing statement?

General COOPER. Nothing but my thanks, sir, for being able to represent the Corps before you, and my deep appreciation for your fine support over the years.

Senator JEPSEN. Thank you very much, gentlemen.

We will now have Mr. Coffey, the Associate Director of Federal Personnel Compensation Division of GAO.

Mr. Coffey, welcome to the meeting. Let me say that I was impressed by your report and I generally found myself in agreement with your statements on page 2 with regard to the need to look at a total picture when you are talking about compensation. We look forward to your testimony. You may introduce the men that you have with you and then proceed.

STATEMENT BY KENNETH J. COFFEY, ASSOCIATE DIRECTOR (MILITARY), FEDERAL PERSONNEL AND COMPENSATION DIVISION ACCOMPANIED BY JIM JOHNSON AND NORMAN ROTH, GENERAL ACCOUNTING OFFICE STAFF

Mr. COFFEY. Thank you, Mr. Chairman.

On my left is Mr. Johnson and on my right is Mr. Roth from our GAO staff. These gentlemen are primarily responsible for our work on the aviation continuation bonus. Let me offer my appreciation for the last hour and a half. I thought the discussion was amazingly open and useful, and it is a pleasure to hear the military discuss things beyond the official line and get into a really useful discussion. So I thank you.

I know the press of time is such that there is not time to really go into any great lengths on our report. I would like to take a few minutes, however, to summarize the work we did for Senator Exon on the aviation bonus. This is an issue of great controversy and concern, and I think in a few minutes I can lay out our position as well as the areas of disagreement.

As you know, we did this work for Senator Exon, primarily questioning whether the Navy and Marine Corps have used the bonus authority as the Congress intended, that is, that it be used selectively where critical shortages of officers existed, and that it be targeted to critical points in their career.

Our work highlighted seven areas of concern. Very briefly, we found that in implementing the authority, both the Navy and the Marine Corps treated it much like long-term career pay, designating the entire officer aviation community to include several pilots and NFO specialties in critical shortage areas and making all aviators within this community with more than 6 and less than 16 years of service eligible to receive the bonus.

Second, we found that despite very small shortages of NFO's, that there really is no major problem in the services of attracting and keeping NFO's, and we questioned the reasonableness of paying bonuses to this group.

Third, we found that while the Marine Corps has a pilot shortage at the entry level, 01 and 02, that they do not have a shortage at the 03 and above level, so we questioned whether the use of the aviation continuation bonus was the appropriate way to address their problem, which is one of input and recruiting, not of retention.

Fourth, we found that in contrast to the Marine Corps, the Navy does have and is likely to continue to have a pilot shortage in the career force and that the payment of the bonus has improved retention among aviators in the critical 6- to 8-year point where large numbers are leaving. We also showed, however, that many of the bonuses were going to people with much longer periods of service whose retention already was very high. The marginal impact of the bonus on this group, in our judgment, was very small indeed.

Fifth, we recognize that a much more refined analysis should be done to determine whether all pilot specialties, that is, jet propeller, helicopter, perhaps even those specialists within those areas who operate specific weapons systems, should qualify for bonus payments. We think that the bonus should be used where needed and not in other areas.

Sixth, we disagree with the Navy's claim on both the numbers of pilots that the bonuses produced as well as the cost-effectiveness of the bonus program. And last, we notice that some aviators with many years of service who would almost certainly remain for the full 20 years were receiving large retention bonuses. We are pleased to hear from Admiral Zech that this issue has been recognized and that corrective action is under way.

In summary, then, Mr. Chairman, concerning the aviation continuation bonus, we are recommending in our report to Senator Exon that it be extended for an additional 2 years. We believe this is appropriate because the Navy does indeed have a pilot shortage that is going to extend for that time and that this period would allow the committee to reasonably review and assess the bonus program.

We are also suggesting that the Navy does not but should know when it is more economical to keep existing aviators, both pilots and NFO's, than it is to train new ones and that such a determination needs to be made so that all of us can agree on the cost-effectiveness or absence of cost-effectiveness in this program.

Mr. Chairman, we went into at great length in our statement on both the cost support for a pay raise and or the need for enlistment and reenlistment bonuses. I won't go into these at any length. However, I would like to very briefly summarize our view on the targeting issue on the October 1982 pay raise and then answer any questions you may have.

We believe that the targeting that was authorized by your committee last year was a very positive step in the right direction. We also view that this year is perhaps a year of unique opportunity. There seems to be agreement that with or without a pay raise, with or without targeting, that all of the services this year will meet their recruiting and retention goals. There also seems to be general agreement that at least for this year we have comparability.

This says to us, then, that there is an opportunity to look at the moneys available and perhaps to take some more developed steps in targeting the money to what we consider to be the critical area, not just in the senior NCO force, but those in critical skills within the senior NCO force that are in short supply.

We pointed out to you several months ago that although there are problems within the career force, there are problems both of skill imbalances and skill overages. There are skill areas that have too many people. There are critical skill areas with too few people.

We would suggest that some of the moneys that are available for this year be targeted not only to the career force but to those critical skill areas where there are shortages. The form this could take could be one of several.

The moneys could be targeted in terms of pay raises to specific occupational groups. Also, some of the moneys could be used to provide extraordinary bonuses for people in these critical skill groups. Or, some of the money could be used for proficiency pays that would go, in our view, much further toward overcoming the critical skill shortages within the senior officer force than would an across-the-board, although targeted, pay raise.

That concludes the remarks I have, Mr. Chairman.

[The prepared statement of Kenneth J. Coffey follows:]

Prepared Statement of Dr. Kenneth J. Coffey, Associate Director (Military), Federal Personnel and Compensation Division

Mr. Chairman and members of the subcommittee: It is a pleasure to appear before you today to discuss the proposed (1) fiscal year 1983 military pay raise—whether it should be targeted or applied across-the-board, (2) the 5-year extension of the selective enlistment and reenlistment bonus program, and (3) the extension of the aviation officer continuation bonus program.

These topics focus on the issue of how best to use monetary incentives to attract and keep sufficient numbers of quality people to man the Armed Forces. We believe that in addressing this issue the three questions that need to be asked are: What are the most reasonable cost-effective means of achieving the military manpower objective? Do military managers have the necessary tools to achieve this overriding goal? And, are military managers judiciously using the tools they have to their disposal?

Let me restate what we have said before; we do not see any component of the compensation system, whether it be basic pay and allowances, bonuses, specialty pays, or educational benefits as individual issues in and of themselves to be looked at in isolation. Rather, the total compensation package should be looked at as a set of management tools to be used to achieve specific mission-related goals and requirements. We believe that fundamental changes are needed to make the total compensation system more cost effective and mission supportive and that until some basic military management concepts change and reforms are instituted in the compensation and retirement systems, the Congress will be bound to dealing with the pay issue—including basic pay, allowances, special pays and bonuses, educational benefits, and all other monetary incentives—on a piecemeal basis. Changes in an area such as this do not come easily, but the efforts of this committee have moved them forward.

OVERVIEW OF THE MANPOWER PROBLEM

Before discussing the questions concerning across-the-board pay raises versus targeting, and the management and use of bonuses—both the enlisted bonus programs and the aviation officer continuation bonus program, I believe it would be appropriate to briefly review the nature of the services' manpower situation. I know this committee is well aware of the overall recruiting and retention problems the services have faced, and that this past year has been exceptionally successful in both areas. Nevertheless, I believe an overview would help place the pay issues being considered today into perspective.

Since switching to the All-Volunteer Force (AVF) the supply of military manpower has become almost entirely dependent upon conditions of the labor market. To react to these conditions and still satisfy the military's manpower requirements, the continuing challenge has been, and will be, how to adjust compensation and other benefit policies to attract and keep the needed number, quality, and mix of people at the lowest possible cost.

Despite commonly held perceptions, since 1974 the Active Force has never been more than 1.5 percent below their total funded authorized strength levels. In fact, for at least the last 3 fiscal years, the Active Force has essentially stood at its authorized strength, and today the Army reports that more quality people want in than it has room for. Also, the active career force—generally considered to be those with more than 4 years of service—has remained relatively stable for each of the services and during this past year the services have reported higher than usual reenlistment rates. Serious manning level shortfalls have been experienced in the Reserves, but in the Active Force, the problems do not seem to be in recruiting and retaining the right number of people in aggregate. Rather, the problems have been, and still are in recruiting and retaining quality people with the right mix of skills and experience to man the force; that is, to obtain and maintain the correct balance of skills, occupations, and experience. It is in this area where the services have fallen short and where their manpower problems lie.

The skill imbalance problems vary from service to service, from grade to grade, and from occupation to occupation, but they can generally be categorized as shortages in occupations that are highly marketable in the civilian economy, such as electronics technicians and aircraft mechanics; shortages in occupations that are not marketable, but which are generally thought of as being unattractive, such as combat skills and Navy boiler technicians; and overages in occupations which are relatively easy to fill, such as many administrative and clerical-type occupations.

These conditions create vastly different types of manpower supply problems, both in recruiting and retention. A solution which fits one problem does not necessarily fit others. In fact, a solution to one problem—for example, one of recruiting a sufficient number of high-quality people—could, if applied across-the-board, exacerbate other problems—for example, one of retaining highly trained technicians.

I would also like to emphasize that the manpower staffing problems are very dynamic and fluid. As has been rather vividly shown over the past year, a problem today may not be a problem next month or next year. Both the supply of the right kind of people and the demand for them changes constantly as a result of changing internal and external conditions.

Given the nature of the services' manpower problems, then, what might be the ideal ingredients for a management system to deal with the problems? What tools would a manager in any large organization need to overcome his manpower staffing problems in the most cost-effective and efficient manner possible? It would seem to us that there are basically five key ingredients.

1. Managers should have adequate resources at their disposal to deal with the problem.
2. Managers should have the authority to apply the resources in a timely manner and an early warning system to know when problems are developing.
3. The problem-solving solutions should be flexible so that managers can make adjustments to them—add to, subtract from, or apply differently—as conditions change.
4. Managers should have the authority to apply resources to manpower problems in the most cost-effective manner; in other words, to target the money to the problem.
5. Managers should have an adequate feedback and evaluation system so that they can determine whether the solutions are working or when more or less resources are needed.

This is somewhat of an ideal environment in which all managers would no doubt like to function, and we recognize that it may be totally achievable, either for business or Government. There are limits to available resources and constraints on management authority. Nevertheless, within the realm of judicious oversight and control by the Congress, we believe that the tools provided to Defense managers should strive to include the elements I have just described.

In the context of the services' manpower problems, which I have just briefly reviewed, and the criteria I have just laid out as to the management tools needed to respond to the problems in a timely and cost-effective manner, I will now discuss the pay and bonus issues which are of concern to this committee today.

ACROSS-THE-BOARD VERSUS TARGETED PAY RAISES

Probably the most obvious and important attraction and retention incentive currently available to the services is basic pay, which all members receive, and the other components or regular military compensation (RMC) which are basic quarters and subsistence allowances, variable housing allowance—or the equivalent of these allowances provide in-kind—and the value of the tax advantage for the nontaxable allowances. The combination of these pay elements is generally considered as the military equivalent to a civilian salary. Obviously, without a reasonable salary, it would be very difficult to attract and keep the people the services need. It is in the areas of basic pay, quarters, and subsistence allowances where the question of an across-the-board pay raise or targeting it to specific problem areas is being debated.

While the level of RMC is probably one of the most important factors in an enlistment or reenlistment decision, it has serious drawbacks as a management tool as it has been traditionally used. First, because of the way this component of the pay system is structured—pay rates being based on rank, years of service, and "need" rather than on the basis of work performed—it is probably the least flexible insofar as addressing specific manpower problems. This component of the pay system results in paying people in some occupations far more than is needed to attract and keep them and paying people in other occupations far less than is necessary to satisfy the requirements of those occupations. Second, numerous studies have shown that most service members—enlisted and officers—underestimate the value of RMC. This is because RMC can include in-kind benefits—housing and food—and a computed tax advantage on nontaxable allowances. The value of these items may differ for each individual, even at the same grade and longevity step. Third, many members see the RMC system as inequitable because two people at the same grade, with the same years of service, and doing the same work may receive a different pay depending on their marital status, number of children, and whether they live on or off base.

The First Concurrent Budget Resolution assumed a 4 percent across-the-board pay raise which would limit the military pay raise to $1.4 billion for fiscal year 1983, whereas the administration's initial budget projections were than an 8 percent pay raise would be indicated by the Professional, Technical, Administrative, and Clerical (PATC) survey. Although the limitation set in the budget resolution assumed an across-the-board pay raise, this committee must decide how the money will be applied; that is, whether it will be applied across-the-board or whether it will be targeted.

Both Defense and the Congressional Budget Office report that, according to their estimates, all of the services will achieve their qualitative recruiting and retention goals—in aggregate—for fiscal year 1983 regardless of whether the available pay raise money is applied across-the-board or targeted to careerists above E-3.

As you may know, we have long advocated that available money should be used where it will be the most effective; that is, that the money should be "targeted" to solving particular manpower problems. Last year, through the hard work of this committee, the October 1981 pay raise was "targeted," with careerists receiving a larger percentage than first-termers. This targeting was aimed at stopping the drain of experienced NCO's, a problem all the services were experiencing to a greater or lesser degree, and to reducing pay compression, a problem which had been building since the introduction of the AVF.

Since last year's pay raise, retention of senior NCO's has improved considerably and pay compression between grades was reduced. In our opinion, targeting last October's pay raise was a positive step in the right direction. However, as I said just a moment ago, the services' manpower problems are not static, and while aggregate recruiting and retention problems have abated, staffing imbalances among occupational specialties still persist. Over 60 percent of all military occupations are either over- or under-manned by at least 10 percent. Dr. Korb made reference to these skill imbalance problems last week in his testimony before this committee. But, this is a problem that cannot efficiently be addressed by "targeting" pay raises to grade and year-of-service groups. Evidence indicates that in the longer term this may serve to perpetuate the imbalance problems. Some military members will continue to be paid far more than is necessary to attract and retain them in their contributions, thus motivating a larger number of these people to remain in the service, whereas others will not be paid enough.

We believe that rather than targeting the October 1982 pay raise to specific grade and year-of-service groups, the committee may want to consider taking the targeting concept a step farther and use some of the available funds to help solve manpower shortage problems in particular career fields. This type of targeting could be done in one of several different ways. For example, the committee could (1) target a portion of the pay raise money to specific occupational areas where critical shortages exist, (2) allocate a portion of the $1.4 billion to the reenlistment bonus programs where targeting to critical shortage problems within the career force would be done by the services, or (3) allocate a portion of the money to be paid monthly as proficiency type pay, again requiring the services to make the critical skill area designations.

5-YEAR EXTENSION OF ENLISTED BONUS PROGRAMS

Active duty enlistment bonuses and selective reenlistment bonuses are Defense's two major cash incentive programs for attracting and retaining personnel in occupational specialties where critical shortages exist. In terms of meeting the criteria of being good management tools, these programs probably come closer than any other monetary incentives currently being used by the military. For the most part, adequate resources have been made available to managers, Defense managers have the authority to adjust the application of resources in a timely manner, managers generally have had the authority to target the resources to the specific problems, and managers get relatively good and timely feedback on how well the resources applied are working—although there is some question about this last item.

While the programs themselves come very close to having all the key ingredients, that does not mean Defense managers have always taken full advantage of the latitude and flexibility these programs offer nor does it mean that bonuses are necessarily the most economical or cost-effective solution to a particular problem. We will soon be publishing a paper which reviews nearly 150 research and audit reports, and brings together in one document pertinent issues and observations concerning the use of bonuses and other alternative attraction and retention incentives. This document, I believe, will be useful to this committee as you move the 1983 pay bill and Defense's requested 5-year extension of the bonus authorities through the legislation process.

The key to both of these programs and the instruction the Congress gave to Defense managers when the programs were initially authorized, was that (1) the bonuses were to be applied selectively to specific problem areas and (2) they were to be used only after Defense had determined that, for the particular problem, bonuses were the most cost-effective solution, that is, that all other incentive or investment options would be less cost-effective. In other words, the Congress expected Defense to apply good management principles and "manage" the programs.

HOW EFFECTIVE ARE BONUS PROGRAMS?

The questions of how successful the bonus programs have been and whether Defense managers have used the tools at their disposal in the most cost-effective manner are difficult to answer. Much depends on how effectiveness is defined, and in our review of nearly 150 studies we found no common definition or agreement as to what "effectiveness" or "cost effectiveness" means. Defense officials have testified that both the enlistment and reenlistment bonus programs have been extremely successful. They point out that the current bonus programs are less costly than their predecessors, and that recruitment and retention rates have improved since the programs were initiated.

While this is certainly one way to measure effectiveness, there are several other questions which need to be asked and answered before one could reasonably conclude that these bonus programs are the most cost-effective or economical means of solving specific skill shortage problems. For example, are bonuses the least costly method of attracting the additional number of people needed to fill shortages in specific skills? What cost-benefit analyses have been made of the bonus programs, and what have they shown—that is, what is the marginal cost of bonuses to attract or retain those who would not otherwise join or remain in the services? Are cash bonuses being used only after other incentives or investments are shown to be less cost effective?

Defense, in its May 10, 1982, request for the 5-year program extension said that it has in the past, and will in the future, use the bonus authority "only after other less costly options have been fully explored and exhausted." Despite this assurance, our review of nearly 150 different studies and audit reports indicates to us that often bonuses were the "remedy-of-choice" rather than an incentive used only after other options had been tested and found ineffective and/or more costly.

ARE THE BONUS PROGRAMS BEING PROPERLY ADMINISTERED?

As I mentioned earlier, while the bonus programs seem to have most of the key ingredients for good management, this does not necessarily mean that these tools are being prudently managed. At this time, when everybody is being asked to tighten their belts, to reduce waste, and save, these programs should be treated no differently. Opportunities for doing things better and, most importantly, most cost effectively cannot be ignored.

Recent reviews by the Defense Audit Service and the service audit agencies suggest millions of bonus dollars have been wasted through deficiencies in program administration. Problems identified cover the whole spectrum of the bonus cycle, from the skill selection process, through assignment and utilization, and into contract terminations. Here are some highlights of these reviews.

Selectivity.—In 1978, GAO reported that the Army had unnecessarily paid enlistment bonuses of $9.6 million to recruits in six overstaffed specialties. Two years later, in September 1980, the Army Audit Agency reported that the Army paid reenlistment bonuses amounting to $6.8 million in 13 occupations which may have been improper due to the poor selection process. Similarly, a June 1981 Naval Audit Service report indicated that the Navy controls the number and level of selective reenlistment bonuses by source rating rather than by enlisted classification codes, a more selective method for selecting bonus specialties. As a result, some occupations were on the bonus list which probably should not have been, while others were not on the list but probably should have been.

Tracking.—Both the Army and Navy have poor systems for tracking bonus recipients, according to service auditors. Army Enlisted Master Files, a key monitoring device, failed to show enlistment bonuses for 95 percent of the people receiving such bonuses during the auditors' test period. Such poor recordkeeping makes tracking virtually impossible. Similar problems were noted by the Navy auditors who concluded that ill-kept management information systems make it difficult to determine what benefits the Navy receives from the skills for which bonuses are paid.

Assignment and use.—Bonus recipients being assigned or used outside their critical skills is not uncommon. In a just completed study of the selective reenlistment bonus program, the Defense Audit Service estimated that between fiscal years 1978 and 1982, about $4 million was lost DOD-wide to bonus recipients who served "out-of-skill" for more than 180 days.

In its September 1980 report, the Army Audit Agency also cited malutilization as a significant problem. In a test at five Army bases, the auditors determined that individuals receiving $8 million in reenlistment bonuses were not being used in their specialty. Rates of maluse ranged between 7 and 20 percent at the installations reviewed. Auditors found bonus recipients being used as customs inspectors, recreational specialist, and as members of a local marksmanship team. Navy auditors have also reported problems in this area.

Recoupments of unearned bonuses.—Millions of dollars have been lost each year as a result of bonus recipients leaving the service before completing their enlistments and reenlistments. Unearned bonuses have been the subject of numerous audit reports, including recent reports by the service audit agencies and GAO. The Defense Audit Service, in its June 8, 1982, report estimated, for example, that $69 million in bonuses will be paid for unrealized service to persons reenlisting in fiscal year 1978 through 1982 who will separate prematurely. Particularly disturbing is the fact that most unearned bonuses are never recovered. Army auditors reported that only about 12.5 percent of these debts are collected and a review by our Office a few years earlier showed an even poorer recoupment rate—6.5 percent.

It is hard to say how much of the cost growth in these bonus programs can be attributed to these types of internal management problems. Credit must be given to Defense and the services for the actions they have taken to clear up these problems, but more needs to be done. We were particularly pleased to see that this committee, along with your counterparts in the House, specifically directed the Secretary of Defense to tighten up procedures for recouping unearned bonus payments.

NAVY AND MARINE CORPS USE OF AVIATION BONUSES

While the manpower problems confronting the services often differ between the enlisted and officer corps, there are some similarities. This was particularly true with respect to the problems the services were encountering retaining a sufficient number of officers in some aviation specialties—particularly pilots. To counter this problem, the Congress gave the services a retention incentive which comes closer to meeting all the criteria of a good management tool than almost any other incentive mechanism available to the services. The Aviation Officer Continuation Bonus Program—which only the Navy and Marine Corps elected to use—is flexible, was adequately funded, managers had the authority to target the money to where the specific problems were occurring, and a reasonably good information feedback system was available to let managers know if the mechanism was working. Despite all these pluses, in our opinion, the Navy and Marine Corps did not judiciously use this management tool which they had at their disposal.

Our report to Senator Exon, who requested that we review the management of the program, is being released today. It details our specific findings and conclusions, and recommends that the bonus program be extended for 2 years—but that the legislation be amended to restrict the use of bonuses to insure that they are used only for aviation specialties where there are critical shortages and at career points where there is a reasonable chance that retention can be improved. Because our report provides considerable detail, I will just briefly summarize it.

Our analysis shows that as much as $81.6 million of the $102.9 million committed by the Navy and Marine Corps in fiscal year 1981, has been, and will continue to be, needlessly spent because, in our view, neither service used the bonus authority as the Congress intended that it be used. Because the services' approch to managing the program has not changed, many more millions of dollars are being needlessly committed and spent for fiscal year 1982.

The legislative history of this bonus authority is quite clear; the bonus was to be used as a retention incentive, selectively applied where shortages of officers in critical aviation specialties exist, and targeted to critical career points where a bonus could be expected to influence retention behavior. Defense echoed this intent in its implementing policy directive. Despite this guidance, the Navy and the Marine Corps continue to pay bonuses, averaging over $18,000 per recipient and ranging as high as $39,000 to aviators who are not in aviation specialties where there are critical shortages or who are beyond the point in their career where retention historically has been a problem.

The Navy and Marine Corps applied the bonus much like a long-term career pay, designating the entire aviation community—which includes several pilot and NFO specialties—a critical shortage area and making all those within the community with more than 6 and less than 16 years of aviation service, who meet the other legislative criteria, eligible to receive a bonus.

NAVY AND MARINE CORPS NFO SHORTAGES

Neither the Navy nor the Marine Corps have experienced, or anticipate experiencing, serious shortages of NFOs in the pay grades when bonuses are paid. Furthermore, retention of NFOs has not been a problem, even in the vulnerable 6 to 8 years-of-service period where high losses usually occur. Since we could find no critical shortages of NFOs and since retention of officers in these specialties left very little room for a bonus to influence retention behavior, we concluded that paying bonuses to officers in the NFO specialties is inconsistent with legislative intent and good management practice.

NAVY AND MARINE CORPS PILOT SHORTAGES

Both the Navy and Marine Corps, however, have, and will continue to have, overall pilot shortages, although the Marine Corps shortage has not been as serve as the Navy's and is concentrated in the 0-1 and 0-2 levels. For at least the last 2 years the Marine Corps has had a surplus of pilots, as compared to requirements, in grades 0-3 to 0-5.

Marine Corps officials acknowledged that insufficient pilot training rates, and not shortages of pilots in grades 0-3 to 0-5, have caused their overall shortage problem and that this problem cannot be solved by the bonus program. They believe, however, that paying bonuses to pilots in grades 0-3 to 0-5 helped them keep some pilots who would have otherwise left the service and that retaining any additional pilots, regardless of whether they are at grade levels where surpluses exist, has improved readiness.

We do not debate the Marine Corps' argument that readiness may have been improved by retaining additional pilots at the 0-3 to 0-5 grade level. However, we believe that paying bonuses to officers at grade levels where surpluses already exist is not an economical way to solve a pilot shortage problem caused by insufficient training rates. Furthermore, as our analysis shows that since Marine Corps pilot year-to-year continuation rates have historically been quiet high, particularly at the 0-4 to 0-5 grade levels, it is doubtful that the bonus prompted many additional Marine Corps pilots to remain. As the continuation rates for these pilots were already near or over 90 percent, there was little room for gain.

In contrast to the Marine Corps, the Navy has had a pilot shortage at grade levels 0-3 to 0-5. We found that the continuation rates for Navy pilots dropped off substantially during the sixth year of service—the year the pilots' initial service obligatin was completed—and remained quite low through the eighth year of service. In the 9th year, however, continuation rates began to increase dramatically to the point where they exceeded 93 percent from the 13th year forward. This means that a bonus paid during the sixth to eighth year period, and possibly the ninth year, could reasonably be expected to influence retention behavior. However, beyond the ninth year, continuation rates are already very high, leaving little room for the bonus to improve retention. Simply put, if 95 out of 100 pilots remained in the Navy without a bonus and 98 or 99 stay if a bonus is paid, the Navy paid bonuses to all 99 pilots just to gain an additional 4. When continuation rates are already in the 95 and 99 percentage range, as they were in the 14th and 15th years of service, the marginal pilot gain by paying a bonus is even smaller.

BONUSES AWARDED ON "YEARS OF AVIATION SERVICE" RATHER THAN ON "YEARS OF ACTIVE DUTY SERVICE"

Many pilots and NFOs were being paid large bonuses even though they were already beyond their 16th year of active duty service or would be beyond that point by the time they had completed their bonus commitment. Navy and Marine Corps records show that, as of January 1982, bonuses have been awarded to 637 pilots and NFOs in this category. For example, at the extreme, we noted that two individuals—both Navy NFOs—one with 15 and the other with 16 years of active duty service were awarded bonuses of $24,633 and $38,990, respectively, as an "incentive" to remain in the service.

Navy officials said that the reason these situations occurred was that the authorizing legislation (Public Law 96-342) states that bonus payments depend on "years of aviation service" rather that "years of active duty service." Since many officers do not become aviators until after they have accumulated several years of active duty service, either as an enlisted member or as an officer, many of those receiving bonuses are only a few years away from retirement eligibility.

While legislation permits situations like this to occur, it does not preclude the Navy from exercising good management judgement. This, we believe, would dictate that paying bonuses to officers nearing retirement is a needleess expenditure and that paying bonuses on "years of active duty service" would be more appropriate.

AVIATOR GAINS ATTRIBUTED TO BONUSES OVERSTATED

On May 20, 1982, the Navy and Marine Corps reported to this, and other committees that the aviation bonus program was highly successful in retaining additional aviators, even more so than originally expected, and that it was effective when compared to the training costs avoided. The Navy reported that an additional 489 pilots and 110 NFOs remained in the Navy solely because of the bonus program and the Marine Corps credited the program with retaining 77 pilots and 13 NFOs who would have otherwise resigned.

We agree that some aviators remained in the services solely to take advantage of the bonus program; however, we believe that the program was not as successful as claimed. Based on our evaluation of the sketchy documentation Navy provided, along with an explanation of how the program managers think the gain was computed, we judged that the numbers reported were exaggerated and, like the Marine Corps, many of the aviators remaining were not in critical shortage areas. We estimate that the Navy might have gained between 60 and 70 pilots in the critical 6-to 8-year groups.

The Navy argues that the bonus program is cost effective when compared to the high cost of training new aviators and that in fiscal year 1981 alone over $487 million in training costs were avoided because of the bonus program. But, the Navy calculated this savings by (1) using the exaggerated pilot and NFO gains, (2) comparing a 1-year bonus cost with a training investment which will be paid back over at least 4½ years, and (3) failing to take into account the total life-cost of an aviator. Life-cycle costs would include, among other things, recruiting, training, pay, allowance, and retirement costs. For these reasons, then, we believe that the Navy claim is exaggerated and that the actual cost savings, if any, would be considerably less.

SUMMARY

In summary Mr. Chairman, what we have tried to present today is a framework for assessing the relative worth of particular incentives in terms of whether each incentive has the key ingredients needed to be useful as a management tool. Again, we think that for an incentive to be most useful, managers should have (1) adequate resources, (2) authority to apply resources in a timely manner, (3) authority to make adjustments, (4) authority to target the resources to the problem areas and to stop feeding resources once the problem is well, and (5) good feedback to know if the targeting is working.

But, as any textbook on management principles will tell you, along with authority goes responsibility—and in our opinion Defenses manager must be held accountable for responsible management. We believe that this has clearly been a problem with respect to both the enlisted and aviation officer bonus programs.

In our opinion, the enlistment and reenlistment bonus programs should be extended as requested and reenlistment bonus programs should be extended as requested by Defense. However, along with the extension of authority should go a directive to Defense that, in consultation with this committee, it more fully define in its program policy directives how bonus program cost effectiveness is to be measured. We believe that bonus effectiveness should be measured not only in terms of the number of new recruits of reenlistments generated, but also in terms of how cost effective bonuses are as compared to other alternative ways of solving the shortage problem. This may not always involve simply comparing one monetary incentive against another, but could often involve measuring the cost and usefulness of a non-monetary action against the cost of awarding bonuses for a particular specialty.

As I mentioned, we are recommending in our report to Senator Exon on the aviation bonus program that it be extended for another 2 years, if requested by Defense; however, on a much more restrictive basis. We are also suggesting that the Navy does not, but should, know when it is more economical to keep existing aviators—both pilots and NFOs—than it is to train new ones. In our opinion, such a determination would require considerable analysis on the part of Navy, but would greatly enhance its ability to manage its aviator community.

Mr. Chairman, concerning whether the October 1982 pay raise should be targeted or applied or applied across-the-board, we believe that this committee made a significant step forward in targeting last year's pay raise. We would urge that this movement continue, and that the committee consider targeting a portion of the available resources to those occupational areas within the career force where manpower shortages exist, and where the money would be most effective in solving specific problems. As I mentioned, there are several ways to achieve this type of pay targeting, which include (1) this committee targeting a portion of the pay raise to specific shortage areas, (2) allocating a portion of the pay raise money to the reenlistment bonus program where career force targeting would be done by the services through already established mechanisms, or (3) designating a portion of the money to be paid monthly as proficiency-type pay, again with the services making the designations as to where the money is most needed. We believe that any one of these alternatives would result in a more efficient and cost-effective use of available resources.

Mr. Chairman, this concludes my formal statement. My colleagues and I would be happy to respond to any questions you may have.

Mr. **Coffey**. If you have any questions for us, we would be pleased to answer them.

Senator **Jepsen**. I just have one quick one. I recognize that the retention rate for NFO's is much higher than the rate for the pilots. However, I understand also the NFO's are a very integral part of the aviation team, and that being accepted, could you bonus the one in the front seat of the team and leave the one in the back seat out? I think the Nimitz experience shows that teamwork and everyone doing their job is very crucial in this area.

Was there consideration given to that when you gave your opinion or rendered your opinion?

Mr. **Coffey**. Senator, you are raising a question which the Navy has also raised about equity; that is, providing all people in the aviation community, all people in the same airplane, with the same rewards. Our view is that equity is an important factor but that the purpose of the avation bonuses is really a step beyond equity. We must distinguish between those pay items that are necessary on the long term on a continuing basis to provide reasonable, competitive, equitable rewards and these needed to address short-term problems.

In that regard, we think the flight pay provision represents such a long-term objective and we endorse it. The aviation continuation bonus, though, like all bonuses, and indeed, as Admiral Zech discussed, are not designed for a long-term equity, for long-term rewards of people in occupations. They are designed specifically to overcome very short-term problems. The hope is that when the problems are resolved, that the moneys can be directed to other problem areas. Se we don't believe that equity is a valid consideration in the context of the aviation continuation bonus.

Senator JEPSEN. Thank you.

Senator EXON?

Senator EXON. Mr. Coffey, I wish to first thank your organization for another job well done. Whether everyone agrees with your report or not, I thank you for it. I think you took a lot of time and effort and I think it gives us a perspective that we certainly need.

Let me get down to some specific questions. How would GAO recommend to the Congress to restructure the bonus program? For example, if we are going to continue with this program which you recommend, would you suggest that we limit it to those with 6 and 9 years of service instead of 6 through 15 or 16?

Mr. COFFEY. Mr. Chairman, we would be hesitant to recommend that the committee put specific boundaries on the group eligible for bonuses because we recognize that although the problems today are in that area; that tomorrow they may be in a different part of the career structure. What we are hoping for is simply better management on the part of the Navy. We feel the program intent is appropriate. We feel that if it was judiciously managed within the flexibility they have, that we wouldn't be here today offering criticism.

We would like to see some communication between this committee and the Navy on a regular basis concerning the scope of the bonuses they propose to pay during the upcoming term, and also on their justification for the targets to whom these bonuses will be paid. We have toiled long and thought much over the years on this and other subjects concerning how to legislate management, and we always come to the conclusion that it is very hard to do. Oftentimes by overmanaging you end up creating more problems than currently exist.

In summary, then, we would like to see the Navy retain flexibility, but we believe they need help and guidance in using that flexibility and we hope that would come from this committee.

Senator EXON. Well, thank you for your answer. I am not sure that it was very helpful, though. It seems to me that you stated earlier that the Navy basically treated this bonus like general pay, and I think they did. I think it is almost like getting on the ship horn and saying, "Now hear this; we have got some money, come ye all." We have heard some horror stories, that may or may not be true, that even after the Navy had, in at least some instances, induced an aviator to sign up for an additional period by additional schooling, after his shoooling period he was already obligated and they came along and said, now here we have something else for you, when they didn't have to do that, which convinces me that basically the Navy took this as general pay and used it to good advantage, I think—to good advantage, I emphasize—to try and retain some of these aviators.

What worries me about this whole thing is that as much as I am for bonuses and as much as I will be for a continuation of some type of a bonus, we get back to the situation, and that is why I posed the question to you on the number of years. I don't know how we can force what we consider proper management of personnel on any branch of the service unless we put some limitation on them. That is the only way when we appropriate money that we can do it.

Are you suggesting that we do it with more oversight hearings? Could you give me a little more help on that area other than to say that——

Mr. COFFEY. Senator, in our report we have specific recommendations for both legislative changes and language explaining the legislative changes. We think that through language which would express the sense of the Congress, certainly through the concern that has been expressed in this and other hearings on this subject, and with the requirement that the Secretary of the Navy shall submit to the Congress annual reports that justify his utilization of this particular bonus authority moneys, that there is a very good chance, well worth the risk, in my view, that the Navy will indeed more judiciously manage this program.

I think that this risk has to be weighted against the risk of overmanagement, overmanagement in terms of tying their hands to the point where what we all agree is a good program will not be so good in the future years.

We have weighted this and we believe that through legislative language, through reporting justification requirements and because of these overview hearings that the concern of the Congress is now quite clearly understood by the Navy, and that this program will be run different in coming years. But I would again refer you to the specific language that we have included in our report.

Senator EXON. Dr. Coffey, maybe you can respond to this question. You conclude that beyond the 9th year of service, continuation rates for Navy pilots are so high that there is little room for the bonus to improve retention.

The Navy argues, on the other hand, that with the high cost of training a new pilot, even if the Navy has to pay the bonus to 100 pilots with, say, 14 years of service in order to retain just one pilot, that they would otherwise have lost, that the bonus money is well spent. How do you respond to that argument of the Navy?

Mr. COFFEY. We disagree with the Navy on their calculations and their logic in reaching their conclusion. We question their use of the numbers of aviators that were gained through this program, and we explain this in some detail in our report.

We also question the methodology they use to cost, particularly in not relating the payback costs over the length of the career and considering life cycle costs. Our conclusion is that they don't know, but neither do we at this point, what is the true cost of this program, and whether or not it is effective.

One of the strong recommendations we have made is that this question be addressed in a far more professional manner, and that this information be available in the future and weighed in future considerations of funding and extending this program.

Senator **Exon**. One last question, Dr. Coffey. The Navy feels that paying the bonus to some aviators and not to others would be discriminatory. Do you believe the equity considerations require that if we pay the bonus to one group of aviators, then all aviators should receive the bonus?

Mr. **Coffey**. Well, Senator, that is foreign to the whole concept of paying bonuses, which are to be used for short-term problem-solving solutions. If we were to accept that view, the cost of military personnel would skyrocket. We would be paying profound amounts of additional moneys to a whole range of people in all the services.

We address continuing problems through continuing pay items such as flight pay. But bonuses should be flexible management tools used consistently in all organizations to address short-term problems. Accordingly, we simply see no merit in their argument.

I would submit that Admiral Zech in his comments echoed this view, when he was discussing the program in the context of a problem-solving short-term device. We differ on where that device should be directed, but I don't think we differ anymore as to whether or not it is a bonus to be used as bonuses traditionally have been used.

Senator **Exon**. Mr. Chairman, it seems to me that one thing that we have to consider is that. You made an excellent point, Mr. Coffey. The targeting idea is designed to attack a specific problem.

Mr. **Coffey**. Correct.

Senator **Exon**. And if it is true—and I am not saying that it is, but at least it is your position—that the Navy used this as more or less general pay, then it seems to me that we are likely to have the situation that we traditionally have within the different branches of the service.

So if you are doing that for the aviators in the Navy, then you have the aviator over here in the Air Force, and you have the aviator in the Army, and it seems to me that we will eventually destroy the whole concept of bonuses to serve a specific need.

I thank you once again for your job well done. I would just like to ask, Mr. Chairman—would Mr. Roth or Mr. Johnson care to add anything to the testimony, since I know you both did a lot of work on the report?

Mr. **Johnson**. I would just like to say that I believe that Dr. Coffey expressed the findings very well in this regard.

Mr. **Roth**. No; I don't have anything to say.

Senator **Exon**. You have better discipline in your agency than we do in the Pentagon. [Laughter.]

Senator **Jepsen**. I thank you, and if there are any other questions, they will be submitted for the record. Thank you very much for your testimony and your good work.

At this time, I would like to ask Madeline van Wagenen to come forward, and we will take your testimony at this time, and I will yield to Senator Quayle who has an opening statement.

Senator **Quayle**. Thank you very much, Mr. Chairman, for this courtesy. I apologize for coming in late, and I am going to have to depart very briefly. But I want to emphasize that the testimony that you are about to hear from Mrs. van Wagenen is basically the issue before us, what we will be discussing—and I appreciate you allowing her to testify—is legislation that has been introduced to restore the educational benefits. It is entitled. "The Survivors of Sacrifice Benefits Restoration Act."

Now, if we go back to the Reconciliation Act of 1981, the amendments contained in the 1981 Reconciliation directed that social security benefits for full-time students stop when the child becomes 18, rather than age 22, and that the widow's benefits which previously were paid on behalf of the child up to age 18, will cease when the child becomes 16.

Now, we all know what the result of this is, but I believe that what we are going to find here is that there is a far deeper principle involved, Mr. Chairman. The Chairman well knows that there is not only a commitment from the military during the military service of the individual or the individuals that are affected by this, but also, it is reaffirmed by the military after the death of the military spouse, in this case.

And I believe that as we examine this, we are going to find a commitment through the military that was made. It was made to these individuals, predicated much on what they were told during recruitment, and even after the death of the military member.

So what this legislation does is, it goes back and restores the basic widow's benefits and the educational benefits which existed prior to the enactment of the Reconciliation Act of 1981.

Mrs. van Wagenen has been very involved in this. She is not the only one that is affected. Many others are affected, and I am sure that after hearing her testimony, you will be touched, as I have been. And I am proud to be a cosponsor of this legislation with the Senator from California, Senator Cranston. And we will be working in the Armed Services Committee with you, Mr. Chairman, and others, bringing this to the attention of the Armed Services Committee.

I think that as we all have a deep affection for what our military men and women have contributed throughout the years, that we would want to live up to this basic contractual obligation that we have. And it appears from first blush, my reading of it, that we have violated that, and that is something I want to see restored.

So I thank the chairman, for his indulgence at this particular time and the cooperation you have extended to me and Mrs. van Wagenen.

Senator **Jepsen**. Senator Exon?

Senator **Exon**. No opening comment. I am looking forward to the testimony by the witness, Mr. Chairman.

Senator **Jepsen**. As am I, Senator. Mrs. van Wagenen has met with key members of my staff and I have received a briefing from them, and I am most anxious and eager to hear your testimony. Welcome, and you may proceed.

STATEMENT OF MADELINE VAN WAGENEN, SURVIVORS OF SACRIFICE

Mrs. **van Wagenen**. Thank you, Mr. Chairman. Thank you, Senator Quayle, for your kind words. I am representing a network of widows. All of them are very much in the same circumstances that I am in.

My husband was killed because he tried to rescue another man. He was a Marine helicopter pilot. I think his death was very typical of those other deaths. The widows that are here with me today have husbands who were killed in Vietnam and elsewhere, and we have always tried to be very proud of our men and very quiet, and let it be a very personal and very private thing.

Under reconciliation last summer, the cuts that went through to the students and widows affected us, and we don't think that the Congress intended that they should affect us. We don't think that Congress knew that our men had been told very specifically how their families would be provided for when they gave their lives.

That is why we have come to Washington and as my testimony, my written testimony, will show, we have brought along the pamphlets that our husbands were shown. We have tried to document the history, the committee history that led to the type of benefits that we were assigned. And I think the documentation shows what the committee wanted, and shows a very integrated package of benefits. Those are their words—an integrated package of both VA and social security benefits.

What our men were never told was that they had absolutely no vested rights under any of these benefits, and if they gave their lives for this country, their families could depend on nothing; that it was the whim of Congress that kept these benefits going. I don't think Congress ever intended to set a dangerous precedent of saying "Let's balance the budget on the backs of men who have given their lives." We know that couldn't have been the intention.

What our husbands were aware of was that they didn't have the same options that other civilians have in this same situation. They could not get the kind of insurance that they needed to cover their families. Civilian insurance routinely is denied for military aviation, hazardous duty, and combat. There is no chance to sue the Government as the employer when death in the workplace occurs.

We knew our husbands were taking great risks, and we were depending on what we were told when they went into it.

These are not the kinds of jobs that you can just walk away from when the going gets tough. Our husbands stuck it out and made a commitment. They would have liked to have been alive today, but they did keep their end of the commitment.

The military pay bill for fiscal year 1983 that you are now considering I think would be an extremely appropriate place to put our benefits under. Simply because I think that current active duty personnel would approve of having the honor due their fallen comrades in arms upheld.

I think it would show them, it would reassure them, that the Government has no intention of setting a precedent to balance the budget on the backs of those who give their lives.

I wish my husband were here to tell you more about this than I can. He can't negotiate anymore. He can't talk to you about kickers and bonuses and incentives. I am not sure that he is of great value to this country anymore, but I was proud of him. I still am. I just think the time for negotiating has passed.

I think we simply ought to keep our word when a man gives up his life for us. And I welcome any questions you have.

[The prepared statement of Mrs. van Wagenen follows:]

PREPARED STATEMENT OF MADELINE VAN WAGENEN, SURVIVORS OF SACRIFICE

Mr. Chairman, I appreciate the opportunity to testify about the loss of important benefits to military survivors. I am here to urge this committee to provide the necessary funds to replace these benefits, thereby upholding the government's commitment to the men who gave their lives for this country.

I am representing a nation-wide network of military widows who are working for the restoration of these benefits lost as a result of social security cuts passed last summer (Public Law 97-35). Specifically, these cuts are: the elimination of the widow's payment when her youngest child reaches his sixteenth birthday, rather than his eighteenth birthday, as has been the case since 1940, and the elimination of social security payments to students enrolled in a full-time post-secondary program—a loss, in most cases, of four years of payments.

We are consistently told that no one realized they were cutting military survivors benefits; they thought they were only cutting a civilian entitlement program. Military personnel, under the Department of Defense, are the only Federal employees required to pay into social security.

The Department of Defense made commitments to our men, detailing the specific benefits that would be there for their survivors. I would like to present for the record an excerpt of one such document (see Appendix A, DOD 1968, Your Personal Affairs). On page 23, clear and unambiguous language delineates the social security benefits provided, and states that social security ". . . *will provide* a monthly income to your unmarried children under age 18 (or until 22 if they are full-time students) . . . and to your widow if she is caring for a child or children under 18 or disabled." (Italics mine.)

Additionally, it goes on to say "Any social security benefits paid your survivors are *separate from, and in addition to,* any form of compensation or other benefits paid by the Veterans Administration . . ." (Italics mine.)

It is clear that emphasis was placed on these and other benefits for the purposes of recruitment and retention. This proved especially useful in a time such as the late 1960's when serving in the military was extremely unpopular.

What was not told to our men in those documents was that they had absolutely no vested rights under either VA or social security—a right routinely protected by law for private pension plans. They were not warned that Congress had the right to "alter or amend this Act" at any time, long after they had committed themselves forever to early graves at this Nation's behest.

The specific social security benefits promised to our husbands followed the historic intent and explicit purpose of legislation that in 1957 created an integral package of benefits for servicemen and their families. In the Report to the 84th Congress by the Select Committee on Survivor Benefits (see Appendix B), which discussed the legislative history of Public Law 881, the committee stated that "it is the opinion of the committee that in this bill that there has been a careful integration of survivor benefits provided from both the Veterans' Administration and social security so as to provide a package that will meet the needs of survivors of Armed Forces personnel. Social security is an integral part of this package. It would have been folly for the committee to have devised a new survivor-benefit program, excluding social security, only to have the efforts of the committee dissipated in a few years when the placement of military personnel under contributory social security would most likely become a reality."

Not only did the 84th Congress plan for a package of benefits, but P.L. 881 made special provisions in the Social Security Act which were applicable only to military personnel. First of all, a special provision gave active duty personnel immediate insured status under social security. The reports says that this provision ". . . deals with a presumed insured status for all men entering the Armed Forces. At the present time, a person is not covered under social security until he has contributed for at least six quarters. Section 405, under title IV of the committee's bill, provides this special insured status granting all men entering the Armed Forces, or currently in the Armed Forces, immediate insured status under social security. Without this provision it would be quite possible that a man could come into the Armed Forces who has never previously had social-security coverage, serve with the Armed Forces for 15 months, and then die without any social-security coverage whatsoever."

This 1957 legislation made the military contibutory employees under social security, thus ending the $160 monthly gratuitous coverage they had received since 1946 (retroactive to 1940) through 1956. Since then, free military wage credits of $300 a quarter are added to the military person's social security account, over and above their taxable base pay.

Why were military personnel and not civilians given this special consideration under social security? It was clear to the Select Committee on Survivors Benefits that there were extreme hazards in the military service. There is no 'job' to compare with the uniqueness of the military existence, in which total commitment is required, even when it brings certain death.

Hazardous duty and its resultant high death rate has been the obstacle to buying adequate life insurance. Civilian insurance carriers routinely deny coverage for military aviation, hazardous duty and combat. Military survivors have no recourse to the courts for damages by holding the government liable for wrongful or negligent active duty deaths; the law forbids it.

By contrast, civilians enjoy the free marketplace and can purchase generous private life insurance as well as double indemnity coverage. And civilian survivors are able to sue for additional compensation through the courts for wrongful or negligent deaths.

Unlike any other job, military service can be forced on a man. Even if he volunteers, he is not free to leave when the going gets tough. He cannot bargain for his wage and benefits package, as a union member might. He can never go on strike; indeed, he must provide essential services when others walk off the job—policemen, firemen, and even air-traffic controllers.

It is obvious that a serviceman simply does not have the same full range of options to protect his family as does his civilian counterpart. Current active duty personnel feel alarmed and fearful that the precedent of taking away family benefits after a man has given the ultimate sacrifice will become an acceptable budget solution after they, too, have given their lives.

Therefore, we are asking the Armed Services Committee to authorize DOD funding to replace our lost social security benefits. Quite frankly there is a distinct lack of enthusiasm, to say the least, by any committee to embrace the commitment made to our husbands. Although the Chairman of the Senate Finance Committee was quoted by CBS News as saying that in this instance the committee "may have made a mistake," social security pleads financial distress. The Veterans' Affairs Committee has already absorbed considerable cuts in other veterans benefits, while protecting our current VA benefits.

Meanwhile, I am reminded of each Service's pride that they "take care of their own"; the time has come to do just that. Let us put aside all the excuses; the men sent out to die didn't make excuses. They simply got the job done, at considerable personal cost.

Surely, a man's rights and benefits should vest when he dies for his country. We do not honor his sacrifice by telling his survivors to look instead for grants and loans offered on the basis of need.

DOD already funds the survivors of military retirees under the Survivor Benefit Plan. When the mission of the Department of Defense causes men to be killed, certainly DOD is honor-bound to carry out the commitments made to their own men. That is part of the lingering cost of war, and part of the continuing defense of this country.

President Reagan has agreed that because a commitment was made to men who then gave up their lives for this country, our benefits should be reinstated. Since Memorial Day, the White House has insisted that they support restoration of our benefits during this congressional session, but as of yet no action has been taken.

Meanwhile, S. 2585 awaits this committee's consideration, with over one-third of the Senate already cosponsoring in a bipartisan effort to correct a regrettable mistake of the 97th Congress.

It is possible that some people do not view this as a mistake at all. They appear to harbor an insidious resentment that a widow simply does not merit the benefits promised her husband before he sacrificed his life. For these people, the passage of time seems to have eclipsed the moral obligation to maintain commitments to long-dead patriots. That is why lobbying Congress these many months has been very difficult for us. We have had to suppress feelings of betrayal, humiliation and outright rage at having to justify the value of a man's sacrifice.

I thank you for this opportunity to speak to the issue of the loss of benefits to military survivors. I hope that my remarks will lead you to believe, as I do, that the Federal commitment must be upheld to the military dead. The sacrifice they made is irreversible, and so, therefore, must be the Federal commitment to them.

APPENDIX A

excerpts from
YOUR PERSONAL AFFAIRS

Armed Forces Information Service
Department of Defense

your personal affairs

DoD PA-6A
DA Pam 360-524
NAVPERS 15900C
AFP 211-2
NAVMC 1148 (Rev. 68)

ARMED FORCES INFORMATION SERVICE
DEPARTMENT OF DEFENSE

INTRODUCTION

Keeping family affairs in order at all times is important to your own welfare now and in the future. For Armed Forces members who have family responsibilities it is also important to the welfare of others now and later.

This pamphlet is a guide to legislation and Service procedures that affect your personal affairs. It also contains a convenient form to be used in recording information about military service, family assets, and survivor protection in an organized manner.

The pamphlet can be helpful to a person before reporting for active duty and directly after entering service. It is also designed to summarize for the career Armed Forces member current legislation and Service provisions that affect personal affairs and to emphasize to careerists the importance of taking steps required to assure that affairs are in order.

This pamphlet is intended primarily for personnel on or entering on extended active duty in the Armed Forces. However, except as otherwise indicated, it is generally applicable to members of the Reserve components on or ordered to active duty for training for 31 days or more. If you are a Reservist in this category, your questions can be answered by your legal assistance officer, unit personnel officer, or the custodian of your personnel records at the installation where you will be on active duty for training.

No man deliberately sets out to put his family behind the "eight ball." Too many individuals do just that because they are careless and unthinking. Without meaning to, they leave their families completely in the dark about their rights and benefits as survivors of a serviceman or a veteran. Your dependents may suffer needless anxiety and hardship *tomorrow* because you didn't act *today*.

Do members of your family—your wife, children, or parents—know they may be entitled to one or more of the following benefits when you die, whether on active duty, in retirement, or as a veteran?

- Six months' pay death gratuity.
- Life insurance.
- Dependency and Indemnity Compensation.
- VA pension.
- Social security payments.
- Burial expense payments.

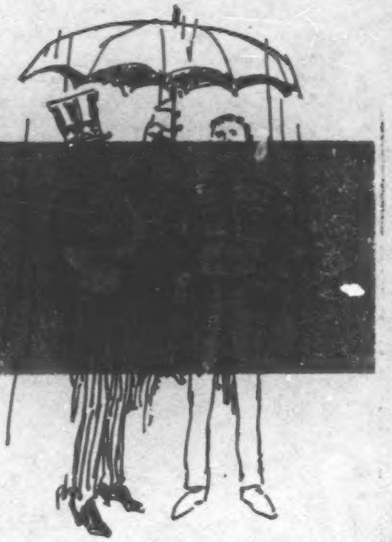
- Medical care.
- Final transportation of household effects.
- Orphan education assistance.
- Business, farm, or home loans for widows.

You owe it to your wife, your children, or your parents to put your affairs in order *today*, so they will know what to do and what to expect, if it becomes necessary, *tomorrow*.

You should at the very least:

- Prepare a will, or, if you have an old one, update it.
- Select an executor to be named in your will to carry out the terms of the will.
- Make certain that your Record of Emergency Data, maintained by your Service, is current at all times.
- Maintain a permanent file of all records and documents pertaining to your military service.
- Prepare a Personal Affairs Record and keep it up to date (see pages 17-20).
- Keep these important documents in a safe place, and tell your next of kin—wife, child, or parent—where they are.
- Let your family know what you are doing for their future protection.
- Inform your family of the Government benefits they will be entitled to if you die and where to file claims.

The purpose of this pamphlet is to help you put your personal affairs in order and plan now protection for the future of your family.



YOUR SOCIAL SECURITY

Contributory Coverage Now. Since January 1, 1957, members of the Armed Forces have been under social security on a "contributing basis"—paying the same social security taxes and being eligible for the same benefits as people in civilian employment.

The Government, as your employer, matches the amount of social security tax withheld from your basic pay, and the total goes into the social security trust fund. Your earnings are credited to your social security account.

Benefits. Benefits include unreduced social security payments for you and your eligible dependents when you retire at 65 or later. There is provision for permanently reduced social security payments if you elect to retire at 62. And disability benefits are payable if you are disabled before age 65. These payments can start the 7th month after the beginning of your disability. Anyone reaching the age of 65 is eligible for hospital insurance under the social security medicare program and can also sign up for voluntary medical insurance.

Your social security coverage is figured in "quarters," which are credits for each 3-month period in which you are paid $50 or more. For social security benefits, a man born in 1926 or later or a woman born in 1929 or later needs credit for 40 quarters, that is, 10 years' work (military service or civilian employment). But if you were born earlier you need fewer credits.

To provide protection for families of younger members of the Armed Forces, the Social Security Administration makes monthly survivor benefits payable to eligible dependents (children and widow, if she is caring for children) of members who have 6 quarters' (18 months) coverage in the 3 years preceding death.

Free Wage Credits. Members of the Armed Forces did not pay social security taxes on their Service pay before January 1, 1957, but free wage credits of $160 per month are granted by the Social Security Administration, except under certain circumstances, for all military service between September 16, 1940, and December 31, 1956. Time spent on active duty during that period cannot generally be used for both military retirement and social security purposes.

However, any active duty since January 1, 1951, can be counted toward both military retirement and social security benefits by anyone who has been on active duty at any time since January 1, 1957.

If none of your service is used to establish eligibility for retirement and you do not receive retired pay based on length of service, you can claim the free military wage credits for all months served on active duty between September 16, 1940, and December 31, 1956. Incidentally, receiving Veterans Administration payments is no bar to using the free wage credits for social security benefits.

You do not get free credits automatically. They are computed when you or your survivors file a claim and submit evidence of your military service.

Military Service and/or Civilian Work. When you leave the Armed Forces you may not have acquired all the credits you need for social security coverage. If not, you must work in "covered" civilian employment at least long enough to earn the additional credits.

The amount of the payments you will receive is figured on a basis of your average earnings, and the amount will be generally lower if there is a gap in your worktime.

One Number. The Social Security Administration keeps a lifetime record of your earnings under your name and social security number. Your name may be the same as another person's (or it may be legally changed), but your social security number belongs to you, and you alone, and remains the same throughout your life. It is, therefore, highly important that you always report your number accurately.

Check Your Record. It is a good idea to check your record with the Social Security Administration from time to time. Get a special postcard form from the Social Security office nearest you and request a statement of the earnings credited to your account. Remember that free credits (for the 1940-56 period) will not show up on such a statement, since the decision as to whether you are eligible for them will not be made until a claim has been filed for benefits.

Local Offices. Your local social security office will answer specific questions you may have about benefits and eligibility requirements.

SURVIVORS' BENEFITS

Six-Months' Pay Death Gratuity. If you should die while on active duty, or from service-connected causes within 120 days after separation, your spouse or other eligible survivor may be entitled to a lump-sum death gratuity of six times your total monthly basic pay (plus special, incentive, and proficiency pay but *not* allowances for subsistence, quarters, and clothing) at the rate to which you were entitled on the date of your death. The minimum payment is $800; the maximum, $3,000. The payment of the sum is made as soon as possible by your Service.

Dependency and Indemnity Compensation. If you should die of a service-connected cause, either while on active duty or after separation or retirement, the Veterans Administration will, upon application, pay to certain survivors monthly benefits known as Dependency and Indemnity Compensation. The monthly amount usually is computed on the basic pay being received by a Uniformed Services member on active duty in the same rank and with the same length of service as the deceased at death, in the case of a person who dies on active duty, or as the deceased at his last separation from active duty, in the case of a separated or retired person. Computation can be based on a higher rank if such rank had been held satisfactorily by the deceased for 6 months or longer. In all cases of DIC eligibility, qualifying service must be under conditions other than dishonorable. DIC can be paid to—

- ***Your Unremarried Widow.*** The amount would be $120 plus 12 percent of the applicable basic pay described above.
- ***Your Unmarried Children Under 18.*** If there is no entitled widow, payments for children under 18 (under 23, if attending school) can also be made.
- ***Your Unmarried Children Over 18.*** For a helpless child (one who became permanently incapable of self-support before age 18), monthly payments can be paid even though a widow receives payments.

A child over 18 but under 23 who is attending school but not receiving orphan's education assistance may receive a monthly payment even though a widow also is entitled to payment. If there is no entitled widow, the child would be entitled to the same amount as an unmarried child under 18.

- ***Your Dependent Parents.*** Surviving dependent parents (within certain income limitations) can receive monthly benefits on a sliding scale according to other income and marital status. Compensation for dependent parents is in addition to any payments to surviving widow or children.

The indemnity compensation rates are the same for both wartime and peacetime service-connected deaths, and, except in the case of dependent parents, are payable without regard to other income.

If you should die with an inservice waiver-of-premium on Government life insurance in effect, your eligible survivors will not be entitled to the dependency and indemnity compensation rates, but will be entitled to the old form of death compensation which, in most cases, is lower.

Special VA Allowance. VA will pay a special allowance to a widow with children whose husband was not fully and currently insured by social security. Payments vary and are paid according to certification by social security.

Social Security. If you have the necessary coverage at death (which may be less coverage than you would need for your social security retirement benefits), social security will provide a monthly income to your unmarried children under age 18 (or until 22 if they are full-time students), and to your disabled children over 18 if they became disabled before reaching 18, and to your widow if she is caring for a child or children under 18 or disabled. It also may provide an income to your widow as early as age 60 and to your dependent parents at age 62.

The amount of benefits that would be paid your dependents after your death depends upon your average earnings under the social security program. You should inform members of your family that they must apply for these benefits, *since payment is not automatic.*

Another social security benefit that may be received is a lump-sum death payment of as much as $255. This is paid to your surviving widow (or widower), or, if there is no qualified widow (or widower), the person or persons paying your burial expenses. The person entitled to the lump-sum payment has until 2 years from date of death to file a claim. Application may be made to the nearest social security office.

Any social security benefits paid your survivors are separate from, and in addition to, any form of compensation or other benefits paid by the Veterans Administration (including the payment toward burial expenses).

Retired Serviceman's Family Protection Plan. You can provide your widow and/or children with monthly income after your death in retirement by electing to pay for a survivorship annuity from your military retired pay. This voluntary plan is made possible under the Retired Serviceman's Family Protection Plan.

You can provide an income of one-eighth, one-fourth, or one-half of your military retired pay, reduced by the cost of the survivorship annuity, for your widow and/or children through this program. You must choose the plan you want either before you complete 18 years of service for pay purposes, or at least 3 years before the first day for which you will be entitled to receive retired pay. You can decide to participate in the plan at any point during your military service. Doing so could result in an additional income for your survivors if you die after your retirement begins, or if you should be prematurely retired on disability before death. In addition, it provides an annuity payable if your death is from a service-connected cause, in which case your survivors would not be eligible for DIC payments.

Costs vary, depending on your age at retirement, your beneficiaries' ages, the option or option combination you choose, and percentage of coverage desired. For information about your particular case, consult your personnel or insurance officer. The Department of Defense Pamphlet PA–7A, *Retired Serviceman's Family Protection Plan*, gives details about the plan and examples of typical costs and annuities.

Pensions for Widows and Children when Death Is Not Service Connected. Just as you might be eligible for a Veterans Administration pension if you become permanently and totally disabled and have income and other financial assets within certain limits, so may your eligible survivors receive this pension if you die from a cause not service connected and their income and other assets are within specified limits. Your credit for wartime service (since 1917) is necessary for their eligibility. When they visit the nearest VA office following your death, their eligibility for this pension can be determined. Periodically the law is changed to ease income and asset limitations, so that the widows and dependent children of more and more former Service members find they can get this pension.

Medical Care. If you die while in service or after you retire, your eligible survivors will continue to receive medical care under the Uniformed Services Health Benefits Program discussed on page 12. It would be helpful for you to keep with your Personal Affairs Record the latest DoD pamphlet on the health benefits program.

Burial. Usually, when an active duty member dies, the Service to which the deceased belonged immediately takes charge. If the serviceman dies at home, on leave, or otherwise away from military control, the nearest survivor should first notify the commanding officer at the deceased's duty station, then get in touch with the nearest military headquarters for assistance. If no military authority is available, a reputable undertaker should be put in charge of the remains until military authorities arrive. The Red Cross or a local veteran's organization may be called upon for help.

You should tell your dependents about these necessary steps so that they will be prepared for this emergency. Because most of us don't like to discuss death, you may prefer to write detailed instructions in the memorandum section of

Pre-Release Training

If you have from 1 to 6 months' service time remaining and wish in-service training or education to increase your opportunities for civilian employment before your release from active duty, see your local educational advisor or personnel officer about Project TRANSITION.

DON'T DELAY-ACT TODAY!

You—and you alone—are the one who can put your personal affairs in order. Of course, you EXPECT to be around for a long time, BUT . . .

Don't gamble with trouble for your loved ones!
Consider them by preparing your—

- **Necessary legal documents.**
- **Personal Affairs Record.**
- **Military history file.**
- **Record of Emergency Data:** DA 41, NAVPERS 601-2, AF 246, NAVMC 10526-PD, or CG 4133.

One final thought: Do these things TODAY!

APPENDIX B

excerpts from
Union Calendar No. 289

SERVICEMEN'S AND VETERANS' SURVIVOR BENEFITS ACT

Union Calendar No. 289

84TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
1st Session } { No. 993

SERVICEMEN'S AND VETERANS' SURVIVOR BENEFITS ACT

JUNE 28, 1955.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. HARDY, from the Select Committee on Survivor Benefits, established by H. Res. 35, submitted the following

REPORT

[To accompany H. R. 7089]

The Select Committee on Survivor Benefits, established by House Resolution 35, 84th Congress, pursuant to the authority contained in that resolution, favorably report the bill (H. R. 7089) to provide benefits for the survivors of servicemen and veterans, and for other purposes, to the House, and recommend that the bill do pass.

THE AUTHORIZATION AND JURISDICTION OF THIS COMMITTEE

A House Select Committee on Survivor Benefits was first authorized August 4, 1954. The committee was created pursuant to House Resolution 549 of the 83d Congress. William H. Bates, Massachusetts, served as chairman of this select committee during the 83d Congress. Robert W. Kean, Bernard W. Kearney, Olin E. Teague and Porter Hardy, Jr., served as members.

House Resolution 549, 2d session, 83d Congress, provided:

> The committee is authorized and directed (1) to conduct a full and complete investigation and study of the benefits provided under Federal law for the surviving dependents of deceased members and former members of the Armed Forces, and (2) on the basis of such investigation and study, to make such recommendations as it may deem advisable and to prepare such legislation as it may consider appropriate to carry out such recommendations.
>
> The committee shall report to the House as soon as practicable during the present Congress the results of its investigation and study, together with its recommendation and the legislation, if any, prepared under the preceding paragraph.

The report of the committee filed December 17, 1954, stated:

> It will be noted that the study of this committee was to embrace the survivor benefits paid Armed Forces personnel and former Armed Forces personnel.

Armed Forces. The cost to the Federal Government for having provided the gratuitous wage credit since September 15, 1940, while significant, did not appear excessive in the opinion of the committee, considering the benefits which have been provided. However, the actual cost to the Federal Government was kept at an absolute minimum because of the following circumstances:

1. Many men entering the Armed Forces during World War II, and immediately thereafter, had previous OASI wage credits.
2. By the Social Security Amendments of 1950 a new start date was provided which lessened the obligation of the Federal Government in calculating, as a part of the benefit, the $160 gratuitous wage credits.
3. Under the Social Security Amendments of 1954, a 5-year dropout provision was provided, which further lessened the cost to the Federal Government for having provided these gratuitous wage credits.
4. Reimbursement of the OASI trust fund will be made on a residual cost basis, rather than a tax basis.

However, officials of the Department of Health, Education, and Welfare, including the Social Security Administration actuary, in testimony before the committee were quite specific in their statement that over a long period of time the trust fund would be adversely affected if they were reimbursed for the $160 gratuitous wage credits on a residual cost basis only. Officials of that Department recommended to the committee that the $160 gratuitous wage credits be terminated and that the military be placed on a contributory basis. If this were not done they advised then, in fairness and equity to the trust fund, the Government in the future should agree to pay the tax rate for the gratuitous wage credits if they are to be continued.

To pay the tax rate, both employer and employee, for all men in the Armed Forces at the rate of $160 per month would cost the Government annually approximately $213,240,000 based on present strength.

It is the opinion of the committee that in this bill that there has been a careful integration of survivor benefits provided from both the Veterans' Administration and social security so as to provide a package that will meet the needs of survivors of Armed Forces personnel. Social security is an integral part of this package. It would have been folly for the committee to have devised a new survivor-benefit program, excluding social security, only to have the efforts of the committee dissipated in a few years when the placement of military personnel under contributory social security would most likely become a reality.

The committee's decision was influenced in part by the testimony of the Department of Health, Education, and Welfare that that agency could not continue indefinitely to pay out benefits under the $160 gratuitous wage credit provision and merely be reimbursed on a residual cost basis. If contributory social security were not to come about and the Department of Health, Education, and Welfare were to insist, in order to protect the Federal old-age and survivors insurance trust fund, that it be reimbursed on a tax basis, then the cost to the Federal Government of paying for the employer and employee tax at the rate of $160 per month would be considerably greater than will be the cost of paying the employer tax under the proposal of this committee.

Based on the present strength and pay of Armed Forces personnel the cost to the Federal Government for paying employer's tax under a contributory social security is estimated to be $114 million per year. The committee does not feel that there will be any undue burden placed upon the military in carrying out the provisions of contributory social security. It is understood there is contemplated between the Social Security Administration and the Department of Defense that there shall be an annual reporting of service pay for social-security purposes if such an arrangement proves to be more feasible than the regular quarterly accounting now required of private industry. Likewise, the reporting to the Social Security Administration and payment to the Bureau of Internal Revenue will be made by the Secretaries of the respective services, each service carrying its own administrative load coincident with this program.

Amendments to the Social Security Act

In placing the military under contributory social security, there are two special provisions made in the Social Security Act which will be applicable only to military personnel.

The first of these provisions deals with a presumed insured status for all men entering the Armed Forces. At the present time, a person is not covered under social security until he has contributed for at least six quarters. Section 405, under title IV of the committee's bill, provides this special insured status granting all men entering the Armed Forces, or currently in the Armed Forces, immediate insured status under social security. Without this provision it would be quite possible that a man could come into the Armed Forces who has never previously had social-security coverage, serve with the Armed Forces for 15 months, and then die without any social-security coverage whatsoever.

During World War II this special insured status provision was not in the Social Security Act and there are today estimated to be approximately 3,700 cases where survivors are ineligible for social-security survivor benefits, even though the $160 gratuitous wage credit was provided, because the deceased died on active duty prior to acquiring the mandatory 6 quarters of coverage. In addition to granting immediate insured status prospectively, there is also a provision in this bill which will grant retroactively for coverage purposes, but not retroactively for payment purposes, the immediate insured status for these 3,700 cases.

The second amendment to the Social Security Act which is applicable only for military personnel provides the disability freeze for persons who are permanently and totally disabled while in the Armed Forces, but who have not acquired 5 years' insured status under the Social Security Act.

In civilian employment a person is not entitled to this social-security disability freeze, until they have attained at least 5 years' coverage under the act. Because of the extreme hazards of military service, the committee feels it appropriate that any man who becomes permanently or totally disabled while in the Armed Forces, regardless of his period of coverage under social security, shall be presumed to have had 5 years' coverage under the Social Security Act so as to protect, without further contribution, his rights, both survivorship and retirement, under the Social Security Act.

Senator **Jepsen**. Thank you, Mrs. van Wagenen. Senator Quayle?

Senator **Quayle**. I just have one question, then I will have to depart. I wonder if you might tell us of any of the promises or discussions that you had with military representatives after your husband's death, concerning your financial arrangements and that educational benefits would be available to you. Would you enlighten us a little bit on after-the-fact discussions, what representations were made to you by our military personnel in dealing with you on your financial arrangements?

Mrs. **van Wagenen**. One of the very important parts of death of an active duty member of the services is the fact that his family should be taken care of immediately. They send out the chaplain to inform you of the facts.

They also send out a casualty assistance officer, basically, who does whatever he can to make it a little easier for you. He comes armed with a pamphlet, a booklet. All the services have their different versions. Mine from the Marine Corps reiterated the Department of Defense language which said "social security will provide" these certain benefits.

The casualty assistance officer literally holds your hand, getting all these new papers filled out, getting you signed onto different things. That is his job, and your job is to be dignified, to keep quiet and just to be simply grateful that they are taking care of things.

The casualty assistance officer—this is an established part of the military. It is, I think, probably the only job in the world that has a branch where they deal with the death afterwards.

Senator **Quayle**. That is my point, Mr. Chairman, and it is well taken. Representation was made on recruitment of an active member and was made after his death. That is a contract that I think we should honor. Thank you very much for your testimony. Thank you, Mr. Chairman.

Senator **Jepsen**. Mrs. van Wagenen, I understand there have been two bills introduced in the Senate to restore the Social Security Survivors' Benefits to military families. Which one does your organization support, and how do these two bills differ?

Mrs. **van Wagenen**. Our network of widows supports any way, anything that will simply pay the bill. To us, as amateurs, we see this as one big government. It is all the same money. We just don't quite understand what the big problem is.

However, our experience in Washington has shown that it is committee system, and because of political expediency, some routes just seem more valid than others at this point.

Therefore, the bill that Mr. Quayle favors, S. 2585, seems to us a much more logical approach at this time.

Senator **Jepsen**. What was that?

Mrs. **van Wagenen**. The bill is S. 2585, and that would provide for Department of Defense funding. We just think that because the Department of Defense made specific reassurances to our husbands—they had to make them feel that their families would be well taken care of—then the Department of Defense should at least back up what their men were told.

I think the route of trying to pay through the Veterans' Administration, while there are many merits to it and there is a precedent for it, unfortunately, the political situation now doesn't seem as likely, simply because they have had to take some cuts under that, already.

Senator **Jepsen**. Do you know what the projected cost of S. 2585 is?

Mrs. **van Wagenen**. There has been a lot of discussion. There has been a lot of different figures. To the best of my knowledge, when the benefits are being phased in over these next several years, the cost will be about $40 to $50 million, and that is a high estimate. And it could go as high as $80 million.

The CBO report does not agree with me. I don't think they were using the right numbers, simply because those figures were not available to them at that time.

Senator **Jepsen**. Mrs. van Wagenen, the widows and children whose Social Security survivor benefits are now being phased out are currently entitled to one of two Veterans' Administration benefits. That is either 45 months of educational benefits or survivor's benefits under the dependency and indemnity compensation program. Aren't the social security survivor benefits more similar to these VA benefits than any benefits administered by the Defense Department?

Mrs. **van Wagenen**. The Defense Department does administer separate benefits to the survivors of their retirees. They don't administer them to those who have been killed on active duty. And we just feel that as part of that package, that integrated package, that the Defense Department issued to our men through other Departments, that when those other benefits fall apart, the Defense Department ought to at least pick up the pieces.

Senator **Jepsen**. Senator Exon?

Senator **Exon**. Mrs. van Wagenen, I just want to thank you for coming here to give this testimony. It has been very informative. I have heard about this issue. I frankly have not taken the time before, and I apologize for not trying to study it.

I, for one, have always been of the belief that when the Federal Government makes a contract, written or implied, it assumes beyond any reasonable doubt that we will live up to that.

I want to take a further look at this matter, and I congratulate you for having the fortitude to take the time that you did to present to us what appears to me to be something that should be corrected. Thank you very much.

Mrs. **van Wagenen**. Thank you, Senator.

Senator **Jepsen**. Thank you, Mrs. van Wagenen. This is just another area that those of us on this subcommittee will be exploring, exchanging ideas on and discussing. It is one of the many times when we again have to make decisions, and it is troublesome that we can breach this commitment, as we seem to be on the road of doing—if we can breach our commitment to those who died for their country because we know we have to balance the budget.

Yet, in the area of values, we were discussing earlier this morning the problem of advancing many times what this would cost to folks who have not yet served, when it isn't necessary to meet the recruiting goals.

I think that when we look at this again, the total picture will be discussed. Your testimony is very valuable, as have been your visits, I might add. You are a very effective visitor, because the word got back to me very quickly on a very positive basis. Thank you very much, and good luck and God bless.

Mrs. van Wagenen. Thank you, Mr. Chairman.

Senator Jepsen. At this time, I would like to ask Colonel Hennrikus, Robert Nolan, and Mack McKinney to come forward. We welcome you, again, to this committee. Different faces but very familiar organizations.

I would advise that any testimony you have in writing will be entered into the record as if read. You may proceed, and I would hope that you can sort of summarize and then we can get to the questions, in any manner that you so desire.

Do you have an opening statement?

Senator Exon. No opening statement.

Senator Jepsen. Do you want to decide between the three of you who shall start off?

STATEMENT OF GEORGE F. HENNRIKUS, JR., DIRECTOR, LEGISLATIVE AFFAIRS, THE RETIRED OFFICERS ASSOCIATION

Colonel Hennrikus. Thank you, Mr. Chairman. I will lead off. Normally, Bob Nolan, Mack McKinney and myself represent our own associations alone and their positions. Today, it is a little unusual. We do represent, again, our own associations, but we are also representing 15 organizations, military organizations, who are loosely confederated in an organization called the Council of Military Organizations. We meet on a monthly basis, and in this case, we want to present a consensus opposition to OMB's four-part proposal dealing with retirement pay.

My statement will be followed by Mr. Nolan's and Mr. McKinney's.

You are familiar with the proposal I think, sir. I will go over it very briefly. It would round retiree pay down to the nearest dollar, eliminate the 1-year look-back by Public Law 90-207 in December 1967 to protect retired pay of active duty members who are retirement-eligible but continue Government service; eliminate pay adjustments for retirees receiving 120 percent or more than a member retiring today at the same rank and length of service, and limit adjustments to 75 percent for those receiving from 101 to 119 percent of today's retiree pay; and restrict future adjustments to changes in the consumer price index or active duty pay, whichever is less.

When OMB first offered this proposal last December, two basic arguments were presented in its support. First, its acceptance by the Congress would result in reduced costs. Second, justice would be served by equalizing the pay of retirees of the same rank and time in service.

Both arguments, to our mind, are defective.

With respect to cost reductions, few would disagree that reduced Government spending must underlie every action taken in the Congress if we are to return to a stable economy. A Defense Department witness before this committee last week said that $183 million would be saved by adopting this proposal. This is certainly a very attractive figure for a costcutter.

In terms of weapons, as a matter of fact, it represents the price of a C-5B or seven firstline fighters or 85 M-1 main battle tanks. In personnel terms, it would equal the cost of replacing 10,000 riflemen or undergraduate flying training for 800 pilots, or graduating a class at one of the academies.

These are costs with which you are all familiar. You deal with them on a daily basis. Yet, they are meaningless and totally out of context if one is really trying to put these estimated savings into a true perspective.

Who knows with any degree of accuracy how many members will elect to leave if this latest dilution of their retirement becomes a reality? One service estimates that its effect in a stable economy would require 4,500 more recruits annually, or about 6 percent more than is now required. The total increase in accession and training costs would exceed $145 million.

The Army's Chief of Staff recently announced his intention to reduce accessions and consolidate his force, thus restoring the experience level and maturity that the Army was losing up until 2 years ago. This is a luxury he could not afford if this proposal was adopted.

The point is that no one can place a pricetag on an experienced, middlegrader who is a proven leader and an expert trainer. One thing we do know is that people who will leave are, for the most part, the best of our middle-grade officers and NCO's, as attested to by the deputies for personnel earlier in this hearing. They represent, in a certain sense, a priceless asset. After all, maturity can be replaced only with the passage of time.

The second argument to the effect that if adopted, the proposal would ultimately equalize the pay of our retirees at the same rank and length in service is equally misleading.

There is a great deal of confusion concerning just who would be affected by this proposal. Last week, a Defense witness told this committee that it would be applied to all Federal retirement systems, including civil service. Because OMB designed it as a revision to the uniformed services system the Office of Personnel Management indicated that it could not be applied precisely to the civil service system. Federal retirees do not have the look-back option, for example.

Consequently, S. 2774, the Omnibus Reconciliation Act, passed by the Senate last week provides for rounding to the nearest lower dollar, but merely limits civil service retired pay to an amount no greater than the pay of a GS-15.

Furthermore, there is a widely held impression that the proposal's impact will be limited to the higher officer and enlisted ranks who retired in the midseventies. A Defense Department impact study clearly shows that all retirees who retired since 1962 up until the current date would face a reduction in lifetime retired pay of 15 to 24 percent under the most pessimistic projections, or 7 to 18 percent under the most optimistic or favorable projections.

To quote the study:

> Those members currently on active duty can anticipate a reduction in life-time retired pay * * *

These are the members currently on active duty by the way.

* * * of lifetime retired pay at 15 to 30 percent. Those members who entered active duty after September 8, 1980 will face this reduction, in addition to another 5 to 20 percent reduction due to the use of high-three average, totaling a reduction of up to 46 percent in comparison to the current system.

Perhaps the most ironic twist to this so-called just proposal is the effect on older retirees and widows. Most pre-1963 retirees receive an average of 20-percent less in retirement than do later retirees. This is due to the lack of a grandfather clause in Public Law 88-132, which prescribes the current cost-of-living formula. If this proposal becomes law, it would guarantee that this group would not only remain in their inferior position, but many of them would be reduced even further.

Widows receiving RSFPP and SBP annuities could also anticipate less than their husbands had provided for them. And, of course, there is the fact that all of those who now receive more than the 1982 retiree served the greater portion of their active duty careers at subpar pay scales. So much for justice.

And so much for OMB's rationale for a proposal that preempts the function of the Congress by altering radically the program that has served as the very foundation of the military personnel management system.

When asked if the foregoing factors were considered in making this proposal, a senior OMB official responded to the effect that his agency was not responsible for sorting out the details. He was right. This is the job of those who manage the forces, with the final decision resting here in the Congress.

It is our opinion that this question has to do totally with force management. For the services, the retirement program is an essential force management tool designed to attract and keep the best people in uniform. For the individual middle-grader, it is a significant factor in making a career decision.

We are not unaware of the need to close the gap between expenditures and revenue. We also recognize that military compensation, especially the retirement system, has always held an appeal for costcutters as the quick fix element in the defense question. It is only those who must deal with it year after year who recognize the implicit dangers of one-dimensional decisions.

Two years ago, prior to the current recession and high unemployment rates, and prior to the generous pay increases which achieved a degree of comparability for uniformed personnel, field commanders were reporting critical shortages of experienced personnel. A virtual hemorrhage of supervisors and trainers threatened the combat readiness in many units of all the services. Expert observers ascribed this exodus to a general lack of confidence on the part of career people that the retirement system would remain intact. Constant public debate, emphasis on special pays as opposed to base pay, negative adjustments to retirement pay itself, and the increasing attraction of pay and retirement systems offered in the private sector all contributed to the general turbulence.

Every one of the services now predict that adoption of this proposal with its long-term negative impact will certainly result in another exodus of key people as soon as we regain economic stability and improved employment rates.

We strongly contend, Mr. Chairman, that this proposal must be rejected and that any change in the retirement system has to be based on a full and open investigation of all the alternatives. We feel this proposal would be costly in the long term, inequitable in its application, and if, adopted, would seriously undermine the effectiveness of our Armed Forces as a credible deterrent to war.

Thank you, Mr. Chairman.

[The prepared statement of George F. Hennrikus, Jr., follows:]

PREPARED STATEMENT OF GEORGE F. HENNRIKUS, JR., DIRECTOR, LEGISLATIVE AFFAIRS, THE RETIRED OFFICERS ASSOCIATION

Mr. Chairman and members of the committee: I am Colonel George F. Hennrikus, Jr., United States Air Force, Retired, Director, Legislative Affairs, of the Retired Officers Association (TROA) which has its national headquarters at 201 N. Washington Street, Alexandria, Virginia. Our association has a membership of over 315,000 retired, former and active duty officers of the seven uniformed services. Included in our membership are approximately 35,000 widows of former members.

I share this panel with Bob Nolan of the Fleet Reserve Association and Mack McKinney of the Non Commissioned Officers Association. Their statement will follow mine. Together we have been designated by the Council of Military Organizations (COMO) to present its unanimous opposition to the Office of Management and Budget's four part proposal to change the uniformed services retirement program. COMO is comprised of the fifteen largest military-oriented organizations in the Country with a collective membership of over a million and a half active and retired members of the uniformed services and their families. The opportunity that you have afforded us to persent our views on this subject is very much appreciated.

The OMB proposal would:

1. Round retiree pay down to the nearest lower dollar.

2. Eliminate the one year look-back, enacted by P.L. 90-207 in December, 1967 to protect the retired pay of active duty members who are retirement eligible but continue government service.

3. Eliminate pay adjustment for retirees receiving 120 percent or more than a member retiring today with the same rank and length of service; and limit adjustments to 75 percent for those receiving form 101 to 119 percent of today's retiree pay.

4. Restrict future adjustments to changes in the consumer price index or active duty pay, whichever is less.

When OMB's proposal was first offered last December, two basic arguments were presented in its support: First, its acceptance by the Congress would result in reduced costs. Second, justice would be served by equalizing the pay or retirees of the same rank and time in service.

Both arguments are defective.

With respect to cost reduction, few would disagree that reduced government spending must underlie every action taken in the Congress if we are to return to a stable economy. A Defense Department witness before this Committee last week said that $183 million would be saved by adopting this proposal. This is certainly a very attractive figure for a cost cutter. In terms of weapons it represents the price of C-5B or seven first line fighters or 85 M-1 main battle tanks. In personnel terms, it would equal the cost of replacing 10,000 riflemen or undergraduate flying training for 800 pilots, or graduating a class at one of the academies.

These are cost with which you are all familiar. You deal with them on a daily basis. Yet they are meaningless and totally out of context if one is really trying to put these estimated savings into a true perspective.

Who knows, with any degree of accuracy, how many members will elect to leave if this latest dilution of their retirement becomes a reality? One service estimates that its effect, in a stable economy, would require 4500 more recruits annually, or about 6 percent more than is now required. The total increase in accession and training costs would exceed $145 million. The Army's Chief of Staff recently announced his intention to reduce accessions and consolidate his forces, thus restoring the experience level and maturity the Army was losing up until two years ago. This is a luxury he could not afford if this proposal was adopted.

The point is that no one can place a price tag on an experienced middle grader who is a proven leader and an expert trainer. One thing we do know is that the people who will leave are, for the most part, the best of our middle grade officers and NOC's. They represent, in a certain sense, a priceless asset. After all, maturity can be replaced only with the passage of time.

The second argument to the effect that, if adopted, the proposal would ultimately equalize the pay of all retirees of the same rank and length of service, is equally misleading.

There's a great deal of confusion concerning just who would be affected by this proposal. Last week, a defense witness told this committee that it would be applied to all Federal retirement systems, including civil service. Because OMB designed it as a revision to the uniformed services system, the Office of Personnel Management indicated that it could not be applied precisely to the civil service system. Federal retirees do not have the look-back option, for example. Consequently, S. 2774, the Omnibus Reconciliation Act passed by the Senate last week, provides for rounding to the nearest lower dollar but merely limits civil service retired pay to an amount no greater that the pay of a GS-15.

Furthermore, there is a widely held impression that the proposal's impact will be limited to the higher officer and enlisted ranks who retired in the mid-70's. A defense Department impact study clearly shows that all retirees who retired since 1962 up until the current date would face a reduction in lifetime retired pay of 15 to 24 percent under the most pessimistic projections, or 7 to 18 percent using the most favorable projections.

To quote the study: "Those members currently on active duty can anticipate a reduction in lifetime retired pay of 15 to 30 percent. Those members who entered active duty after September 8, 1980, will face this reduction in addition to another 5 to 20 percent reduction due to use of high-three averaging, totaling a reduction of up to 46 percent in comparison to the current system."

Perhaps the most ironic twist to this so called "just" proposal is the effect on older retirees and widows. Most pre-1963 retirees receive an average 20 percent less in retirement pay than later retirees. This is due to the lack of a grandfather clause in Public Law 88-132 which prescribes the current cost of living formula. If this proposal became law, it would guarantee that this group would not only remain in an inferior position, but many of them would be reduced even further.

Widows receiving RSFPP and SBP annuities could also anticipate less than their husbands has provided for them. And, of course, there is the fact that all of those who now receive more than the 1982 retirees served the greater portion of their active duty careers at subpar pay scales. So much for justice.

And so much for OMB's rationale for a proposal that pre-empts the function of the Congress by altering, radically, a program that has served as the very foundation of the military personnel management system. When asked if the foregoing factors were considered in making the proposal, a senior OMB official responded to the effect that his agency was not responsible for sorting out the details. He was right, of course. This is the job of those who manage the forces, with the final decision resting here in the Congress.

It is our opinion that this question has to do, totally, with force management. For the services, the retirement program is an essential force management tool designed to attract and keep the best people in uniform. For the individual middle-grader, it is a significant factor in making a career decision.

We are not unaware of the need to close the gap between expenditures and revenue. We also recognize that military compensation, expecially the retirement system, has always held an appeal for cost cutters as the quick fix element in the defense equation. It is only those who must deal with it year after year who recognize the implicit dangers of one dimensional decisions.

Two years ago, prior to the current recession and its high unemployment rates, and prior to the generous pay increases which achieved a degree of comparability for uniformed personnel, field commanders were reporting critical shortages of experienced personnel. A virtual hemmorrhage of supervisors and trainers threatened combat readiness in many units of all the services. Expert observers ascribed this exodus to a general lack of confidence on the part of career people that the retirement system would remain intact. Constant public debate, emphasis on special pays as opposed to base pay, negative adjustments to retirement pay itself, and the increasing attraction of pay and retirement systems offered in the private sector all contributed to the general turbulence.

Every one of the Services now predict that adoption of this proposal with its long term negative impact will certainly result in another exodus of key people as soon as we regain economic stability and improved employment rates.

We strongly contend that this proposal must be rejected and that any change in the retirement system has to be based on a full and open investigation of all the alternatives. We feel this proposal would be costly in the long term, inequitable in its application, and, if adopted, would seriously undermine the effectiveness of our armed forces as credible deterrent to war.

Senator **Jepsen**. Mr. Nolan?

STATEMENT OF ROBERT W. NOLAN, NATIONAL EXECUTIVE SECRETARY, FLEET RESERVE ASSOCIATION

Mr. **Nolan**. Mr. Chairman and distinguished members of this subcommittee, I am Robert W. Nolan, a retired Navy chief petty officer, the national executive secretary of the Fleet Reserve Association. It is indeed my privilege to be chosen by my colleagues of the Council of Military Organizations to be one of their three spokesmen on this vital issue that you are investigating today. I strongly reiterate each of the 15 national military associations unanimous agree to the positioin we are expounding.

And to avoid repetition, I will brief my statement, Mr. Chairman.

Senator **Jepsen**. I appreciate that.

Mr. **Nolan**. The fundamental purpose of the military retirement program is to facilitate force management. The retirement program provides a legitimate basis for our mobilization plans and insures a large standing pool of skilled, experienced manpower will be available to this Nation's wartime requirements. But unknown to many, Navy and Marine Corps enlisted retirees are called upon to volunteer to meet their service's peacetime requirements as well. Permit me to explain.

Enlisted Navy and Marine Corps personnel do not retire after 20 years of service. After completing such service, they may request the Secretary of the Navy's permission to transfer, respectively, to the Fleet Reserve or Fleet Marine Corps Reserve. The law requires them to continue to serve in that category until they have completed the 30 years of service required to be placed on the retired roll of their respective service.

While serving in the Fleet Reserve components, they are subject to involuntary recall at the pleasure of the Secretary of the Navy, or may volunteer for recall to meet a specific crisis. They do not receive retired pay, but rather, retainer pay while in the Fleet Reserve component.

The wisdom and benefits of this law have been clearly proven during the last half-century. In 1939, Fleet Reservists were involuntarily recalled to active duty to man a two-ocean Navy. At the beginning of the Korean conflict, certain military skills were needed and were recalled.

With the build-up in Vietnam in the 1960's, the Navy found a great need for additional experienced corpsmen to serve with the Fleet marines, construction personnel to serve with our construction battalions, and personnel experienced in naval communications. The Navy met these personnel needs through a voluntary recall of thousands of Fleet Reservists.

With the 1968 recommissioning of the U.S.S. *New Jersey*, there was a demand for personnel with battleship duty experience. Once again, the Navy met its needs by a voluntary recall of Fleet Reservists to man the ship.

On July 20, 1981, Vice Adm. Lando W. Zech, USN, the Chief of Naval Personnel, requested the Fleet Reserve Association to publicize the Navy's current voluntary recall of Fleet Reservists to assist the Navy in meeting its critical shortage of skilled and experienced petty officers. Fleet Reservists desiring to return to active duty must volunteer for 2 years of sea duty.

The FRA publicized the program in the September 1981 edition of its national publication, "Naval Affairs." On June 11, 1982, Vice Admiral Zech addressed a second letter to us, complimenting us on our role in the Navy's success and requesting us to reemphasize the voluntary recall, especially for certain needed ratings.

The Navy has informed me that they were swamped with literally hundreds of volunteers. Many volunteers, particularly those requesting duty in the recommissioned U.S.S. *New Jersey*, were retired and therefore did not meet the requirements to return to active duty. But the fact is they were willing to return.

It should be obvious to all that the Fleet Reserve and the retired military community provides the Nation with a military manpower edge that cannot be matched in other ways. Our experience in the pre-World War II era, Korea, and Vietnam conflicts proves this vast pool of skilled and experienced personnel is ready when the Nation needs them. They have not necessarily made their last sacrifice for our Nation. Therefore, it is imperative that this Nation does not break faith with them.

We of the Council of Military Organizations feel that this proposal is not only unwise but most impractical. The proposal is complicated and will be difficult to administer. The Navy Finance Center informs us that they will be forced to handle the pay records manually as their computers are old and not the latest state of the art.

The proposal will create different classes of retirees with each class being affected differently. Furthermore, any future changes would affect each class differently, and surely, they would not be treated equitably across the board. This means that Congress would have to contend with a dissatisfied group in any future proposals addressing the problem.

The proposal would adversely affect the survivor benefit payments, and it is a cruel hoax on the widows of military retirees.

The implementation of the proposal would clearly be seen as a breach of faith by both the active duty and retired communities.

Recent surveys of our membership clearly establish the military retirement pay as the absolute number one benefit of a military career.

The compensation of the clearly designated active duty personnel has enjoyed a remarkable turnaround during the 1980 and 1981 years, thus restoring the active duty person's view that he will be equitably compensated for his services. For those serving beyond the 10-year mark of service, it should be obvious that he views his future retired pay as an integral part of his compensation.

To now change horses in midstream is sure to exacerbate the personnel problem. Namely, we could well find ourselves in the midst of a mass exodus of even greater magnitude than the shortage of 22,000 experienced, mid-level trained technicians and petty officers in the Navy of 2 years ago.

The retired military community is proud of its service and contributions to our Nation. They are responsible, hard-working American taxpayers. The vast majority of them pay more in annual Federal taxes than they receive in military retirement.

In closing, I ask you to keep this thought in mind. Today, this Nation has more than 29 million veterans. Over the past 40 years, the vast majority of American males have experienced military service. Each and every one of them had the opportunity to elect a military career. But, on the average, only 1 in 10 of them accepted the surrender of personal freedoms for the vicissitudes of a military career. Yet today, as we military retirees reap the just rewards of this service to our country, there are those both in and out of the Government who judge our earned benefits as a form of Government largesse.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Nolan follows:]

PREPARED STATEMENT BY ROBERT W. NOLAN, NATIONAL EXECUTIVE SECRETARY, FLEET RESERVE ASSOCIATION

INTRODUCTION

Mr. Chairman and distinguished members of this subcommittee, I am Robert W. Nolan, a retired Navy Chief Petty Officer, the National Executive Secretary of the Fleet Reserve Association and it is indeed my privilege to be chosen by my colleagues of the Council of Military Organizations to be one of their three spokesmen on this vital issue you are investigating today. I strongly reiterate each of the fifteen national military associations unanimously agree to the position we are expounding:

Any so-called "quick fix" to our Military Retirement System, based on a reduction of government expenditures will undoubtedly be devastating to the future composition of our armed services.

Recent substantial pay raises for the active duty military, coupled with the state of the economy, has contributed to the current enlistment and retention rate. Once the economy is back to normal, those highly skilled technicians and middle managers will seek more lucrative positions in the business world.

The complete loss of faith in our government, should the proposal to freeze or cap future adjustments to our military retirees pay, will completely turn-off those young men and women needed to sustain a career force in our armed services.

Very few people will even consider putting up with the controlled, highly disciplined lifestyle of the military if they cannot look forward to a reasonable opportunity to retire and be adequately compensated for its unique and demanding requirements.

Those who have already given so much in defense of freedom for this Nation should not be penalized due to previous administration's capping active duty pay raises.

If the true objective is to change the current retirement system from a budgetary standpoint, a well planned system should be devised and all those currently on active duty be placed under a "grandfather" clause.

THE MILITARY RETIREMENT SYSTEM

The fundamental purpose of the military retirement program is to facilitate force management. The retirement program provides a legitimate basis for our mobilization plans and insures a large standing pool of skilled, experienced manpower will be available to this Nation's wartime requirements. But unknown to many, Navy and Marine Corps enlisted "retirees" are called upon to volunteer to meet their Service's peacetime requirements as well. Permit me to explain.

Enlisted Navy and Marine Corpos personnel do not "retire" after twenty years of service. After completing such service, they may request the Secretary of the Navy's permission to transfer, respectively, to the "Fleet Reserve" or "Fleet Marine Corps Reserve." The law requires them to continue to serve in that category until they have completed the thirty years of service required to be placed on the retired roll of their respective Service. While serving in the Fleet Reserve components, they are subject to involuntary recall at the pleasure of the Secretary of the Navy or may volunteer for recall to meet a specific crisis. They do not receive "retired pay" but rather "retainer pay" while in the Fleet Reserve component.

The wisdom and benefits of this law have been clearly proven during the last half-century. In 1939, Fleet Reservists were involuntarily recalled to active duty to man a two-ocean Navy. At the beginning of the Korean conflict, certain military skills were needed and were recalled. With the build-up in Vietnam in the mid-1960's, the Navy found a great need for additional experienced corpsman to serve with the Fleet Marines, construction personnel to serve with our Construction Battalions and personnel experienced in naval communications. The Navy met these needs through a voluntary recall of thousands of Fleet Reservists. With the 1968 recommissioning of the U.S.S. *New Jersey,* there was a demand for personnel with battleship experience. Once again, the Navy met its needs by a voluntary recall of Fleet Reservists to man the ship.

On July 20, 1981, Vice Admiral Lando W. Zech, U.S.N., the Chief of Naval Personnel, requested the Fleet Reserve Association to publicize the Navy's current voluntary recall of Fleet Reservists to assist the Navy in meeting its critical shortage of skilled and experienced petty officers. Fleet Reservists desiring to return to active duty must volunteer for two years of sea duty! FRA publicized the program in the September 1981 edition of its national publication, "Naval Affairs." On June 11, 1982, Vice Admiral Zech addressed a second letter to us complimenting us on our role in the Navy's success and requesting us to reemphasize the voluntary recall, especially for certain needed ratings.

The Navy has informed me that they were swamped with literally hundreds of volunteers. Many volunteers, particularly those requesting duty in the recommissioned U.S.S. *New Jersey,* were retired and therefore did not meet the requirements to active duty but they were willing to return!

From October 1980 through July 1982, the Navy received 1,516 applications from Fleet Reservists volunteering for two years of sea duty. Of those, 640 were approved. 162 Fleet Reservists volunteered to return to active duty to serve in the U.S. *New Jersey,* six applicants were accepted.

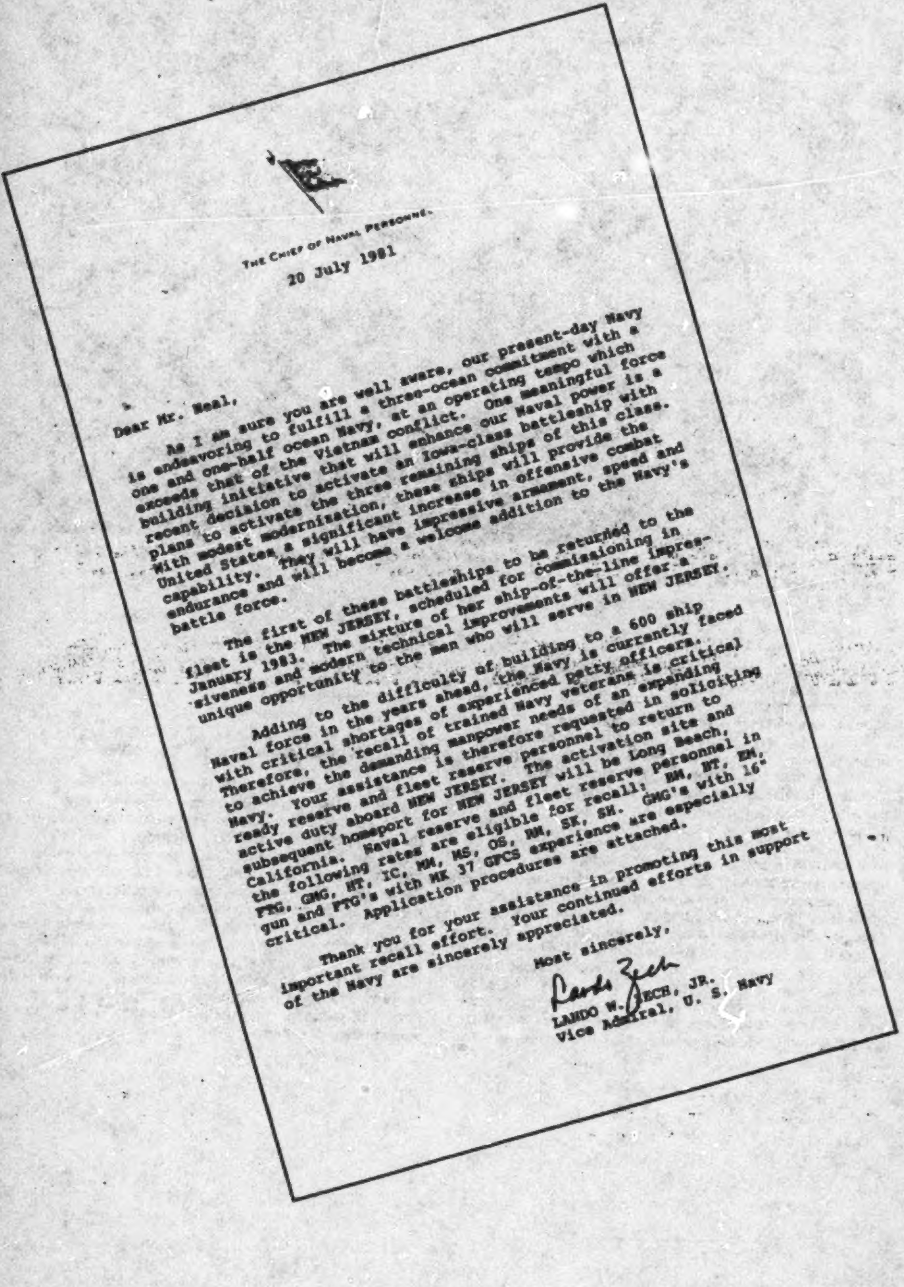
It should be obvious to all, that the Fleet Reserve and retired military community provides the Nation with a military manpower edge that cannot be matched in other ways. Our experience in the pre-World War II era, Korea and Vietnam conflicts proves this vast pool of skilled and experienced personnel is ready when the Nation needs them! They have not necessarily made their last sacrifice for our Nation. Therefore, it is imperative that the Nation does not break faith with them.

We of the Council of Military Organizations feel that this proposal is not only unwise but most impractical because:

1. The proposal is complicated and will be difficult to administer. The Navy Finance Center informs us that they will be forced to handle the pay records manually as their computers are old and not the latest "state of the art."
2. The proposal will create different classes of retirees with each class being affected differently. Furthermore, any future changes would affect each class differently and surely they would not be treated equitably across the board. This means the Congress would have to contend with a dissatisfied group in any future proposals addressing the problem.
3. The proposal would adversely affect the survivor benefit payments and it is a cruel hoax on the widows of military retirees.
4. The implementation of the proposal would clearly be seen as a breach of faith by both the active duty and retired communities.
5. Recent surveys of our membership clearly establishes the military retirement pay as the absolute number one benefit of a military career.
6. The compensation of the clearly designated active duty personnel has enjoyed a remarkable turn-around during the 1980 and 1981 year thus restoring the active duty person's view that he will be equitably compensated for his services. For those serving beyond the 10-year mark of service, it should be obvious that he views his future retired pay as an integral part of his compensation. To now change horses in mid stream is sure to acerbate the personnel problem. Namely, we could well find ourselves in the midst of a mass oxodus of even greater magnitude than the shortage of 22,000 experienced mid-level trained technicians and petty officers of two years ago.

The retired military community is proud of its service and contributions to our Nation. They are responsible, hard-working American taxpayers. The vast majority of them pay more in annual Federal taxes that they receive in military retirement. In closing, I ask you to keep this thought in mind—today, this Nation has more than 29 million veterans. Over the past 40 years, the vast majority of American males have experienced military service. Each of them had the opportunity to elect a military career. But, only 1 in 10 of them accepted the surrender of personal freedoms for the vicissitudes of a military career. Yet, today, as we military retirees reap the just rewards of service to our country, there are those both in and out of government who judge our earned benefits as a form of Government largesse.

Reprinted from September 1981 "Naval Affairs"



THE CHIEF OF NAVAL PERSONNEL

20 July 1981

Dear Mr. Neal,

As I am sure you are well aware, our present-day Navy is endeavoring to fulfill a three-ocean commitment with a one and one-half ocean Navy, at an operating tempo which exceeds that of the Vietnam conflict. One meaningful force building initiative that will enhance our Naval power is a recent decision to activate an Iowa-class battleship with plans to activate the three remaining ships of this class. With modest modernization, these ships will provide the United States a significant increase in offensive combat capability. They will have impressive armament, speed and endurance and will become a welcome addition to the Navy's battle force.

The first of these battleships to be returned to the fleet is the NEW JERSEY, scheduled for commissioning in January 1983. The mixture of her ship-of-the-line impressiveness and modern technical improvements will offer a unique opportunity to the men who will serve in NEW JERSEY.

Adding to the difficulty of building to a 600 ship Naval force in the years ahead, the Navy is currently faced with critical shortages of experienced petty officers. Therefore, the recall of trained Navy veterans is critical to achieve the demanding manpower needs of an expanding Navy. Your assistance is therefore requested in soliciting ready reserve and fleet reserve personnel to return to active duty aboard NEW JERSEY. The activation site and subsequent homeport for NEW JERSEY will be Long Beach, California. Naval reserve and fleet reserve personnel in the following rates are eligible for recall: BM, BT, EM, FTG, GMG, HT, IC, MM, MS, OS, RM, SK, SH. GMG's with 16" gun and FTG's with MK 37 GFCS experience are especially critical. Application procedures are attached.

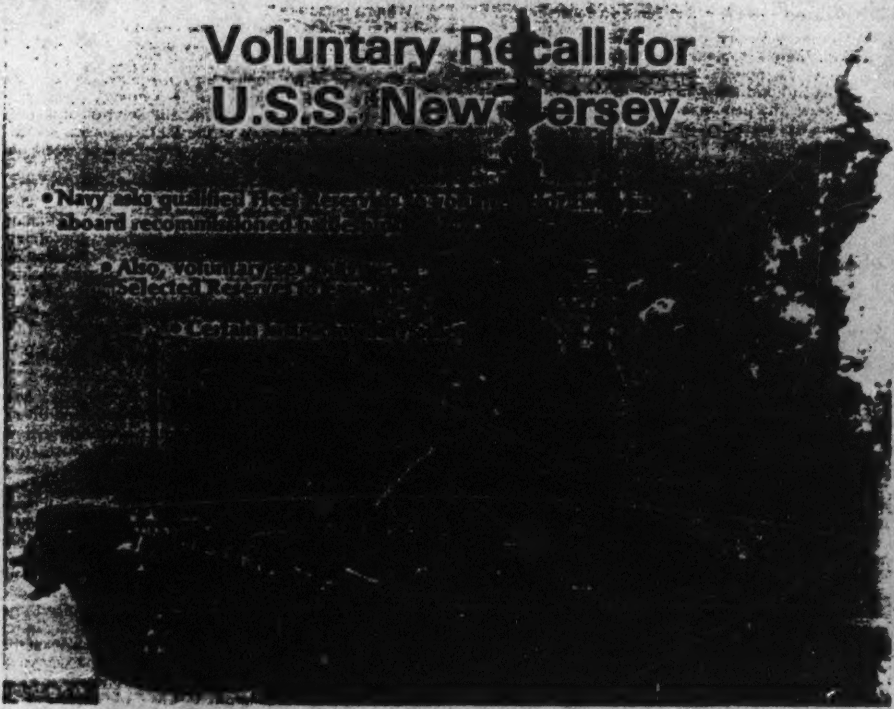
Thank you for your assistance in promoting this most important recall effort. Your continued efforts in support of the Navy are sincerely appreciated.

Most sincerely,

Lando Zech

LANDO W. ZECH, JR.
Vice Admiral, U. S. Navy

Voluntary Recall for U.S.S. New Jersey



- Navy asks qualified Fleet Reserv[illegible] aboard recommissioned battle[illegible]
- Also, voluntary [illegible] Selected Reserv[illegible]
- Certain [illegible]

The mighty U.S.S. New Jersey (BB-62) fires a salvo toward a target in the Republic of Vietnam during her last tour of duty in the South China Sea. (Photo by—PH2 Monty Tipton)

Admiral Zech's letter to the FRA requests our assistance in publicizing the Navy's program for manning the Iowa-class battleships to be recommissioned and easing the fleet personnel crunch the Navy is enduring at present. Currently, the Navy is short 22,000 experienced petty officers. Between thirty and forty percent of the shortage is in the top three pay grades, E-7, E-8, and E-9. The Navy is confident it can ease the shortage through a voluntary recall of qualified Fleet Reservists.

Upon receipt of the Admiral's letter, N.E.S. Bob Nolan, with the National President's concurrence, contacted the Admiral's office and assured him of the FRA's full support. We arranged a meeting with the officer charged with the policy responsibility of the recall program, CDR N. V. McKenna, USN and his assistant, YNCS Leonard "Len" Grasso, USN. This was done to learn the details of the program, ask some questions and assure the FRA would publicize the correct procedures to follow for those interested in volunteering to serve on active duty. The program has four basic parts: (1) the basic voluntary recall to serve two-years on sea duty, (2) voluntary recall to serve on the U.S.S. New Jersey and other battleships to be recommissioned, (3) voluntary recall for two years in certain instructor duty billets and (4) the voluntary recall of Selected Reservists.

Criteria for Volunteering for Sea Duty Billets

This program is open to Fleet Reservists and Selected Reservists. There is a minimum two year contract. In addition to the ratings stated in Admiral Zech's letter, all sea-going aviation rates are included. Fleet Reservists returning to active duty must be able to complete 24 months of active duty before being placed on the Navy's Retired List. Fleet Reservists not able to meet this requirement may be considered on a case basis for recall by being discharged from the Fleet Reserve and immediately enlisted in the U.S. Navy. This action would allow them to continue on active duty beyond 30 years. Selected Reservists must be able to complete 20 years of active duty by age 55. All volunteers must be physically qualified. A physical can be obtained at any military command with medical facilities.

Criteria for Voluntary Recall to Serve on Battleships

This program is open to Fleet Reservists and Selected Reservists. There is a minimum two year recall obligation plus a one year option. This voluntary recall will make up the second and third increments of the U.S.S. New Jersey's crew. The first increment, 21 officers and 89 enlisted men, has been drawn from the current active duty ranks. The second increment of 690 men will report to the ship in January. The third increment of 762 personnel will report in July 1982. Personnel with previous large combatant experience are desired. Billets will be filled on a first come, first serve basis. Volunteers to serve on other Iowa-class battleships later are encouraged to apply now. Volunteers must be physically qualified and meet all eligibility requirements for recall to active duty.

Criteria for Voluntary Recall for Instructor Duty

This program is also open to Fleet Reservists who are qualified instructors in the following ratings and they are needed at the following training commands: ET, IC, GS at SSC, Great Lakes; EW, FT, ET, IC and RM (SS) at SSC, San Diego; EW, ET, EM, IC, FT and TM at SSC, Orlando; (NOTE: No E-8 or E-9 EW instructors needed) AE, AQ, AT, AV, AX and TD at NATTC, Millington, (NOTE: No E-9 TD instructors needed). Personnel in these ratings must have completed instructor training, recommended for and previously been assigned to instructor duty. Waivers of this requirement will be considered based upon civilian instructor experience if qualified. Fleet Reservists actually in the Fleet Reserve prior to 1 June 1981 are eligible for recall as instructors. Applicants will be considered provided they have not been a member of the Fleet Reserve for more than five years. Those who are recalled as instructors but request sea duty will be so assigned. If selected under this program, recall will be for a guaranteed minimum of two years. At the completion of this two year tour requests for a one year extension on board will be evaluated based upon the then existing shortage of instructors. Applications for instructor duty will follow the same procedure as that outlined for sea duty.

The Recomputing of Retainer/Retired Pay After Returning to Active Duty

Current law requires persons returning to active duty from the Fleet Reserve or retirement must serve a full two years under a military pay bill to recompute their retainer/retired pay at the higher active duty rate. Inasmuch as military pay has been increased annually, a volunteer for recall will be able to recompute his retainer/retired pay after re-release on the pay scale in effect at the time of his return to active duty. Additionally, the volunteer will increase his multiplier factor by two years of active duty (an additional five percent). The current pay scales in effect are:

PAY	YEARS OF SERVICE		
GRADE	20	22	26
E-7	$1219.20	$1301.10	$1462.80
E-8	1381.50	1462.80	1626.00
E-9	1576.20	1659.30	1820.40

In view of the pending double-digit military pay raise to be effective on 1 October, 1981, the two-year recall to active duty could prove to be monetarily worthwhile.

When a person returns to active duty, his Survivor Benefit Plan remains in force but he ceases to pay premiums until he returns to Fleet Reserve or retired status. While on active duty after 20 years, he is fully covered by SBP. In the event of his demise on active duty, his surviving dependents are entitled to Dependency Indemnity Compensation (DIC) and if the SBP survivor annuity is greater than the amount of the D.I.C. payment, his surviving dependents receive the difference between the D.I.C. and SBP.

FRA has asked BuPers some technical questions concerning the SBP, Serviceman's Group Life Insurance (SGLI) coverage on recall to active duty and the clothing allowance. When we have the answers, we will promptly publish them. We have been assured that all volunteer recallees will be entitled to full travel allowance for dependents and shipment of household effects. Also, all recallees are eligible for advancement under the same eligibility and criteria of all active duty personnel.

Fleet Reserve and Selected Reserve Personnel Desiring to Volunteer for Active Duty

Volunteers should contact the Commander, Naval Military Personnel Command (NMPC-212), Navy Department, Washington, D.C. 20370. Applicants must enclose their most recent Form DD-214 (the Report of Release From Active Duty) together with a report of a military physical completed within 90 days of the date of application. The physical can be taken at any military command with medical facilities, or check with your local Navy Recruiter. Please mark your envelope clearly: "NEW JERSEY RECALL".

The Navy is not asking you to "Buy a pig in a poke" prior to volunteering. You may contact the responsible persons in the Naval Military Personnel Command (the old BuPers) and investigate fully. For those wishing to return to sea duty, you may call PN2 Craig Sims, USN at the following numbers: AUTOVON—224-3887, COMMERCIAL—(202) 694-3887. For information concerning recall to Battleship duty, telephone OSCM Carl Connolly, USN at either AUTOVON—225-7251 or COMMERCIAL—(202) 695-7251. When you telephone, have the following information available: (1) the date of your transfer to the Fleet Reserve, (2) your Social Security Number, and (3) the number of years of your previous active duty service.

Remember, you can get full details of your recall and actual duty assignment before you are recalled to active duty under recall orders. If your circumstances should change between the time you apply for recall and the receipt of your recall orders, you do not have to execute the orders as they are voluntary recall orders.

Reprinted from August 1982 "Naval Affairs"

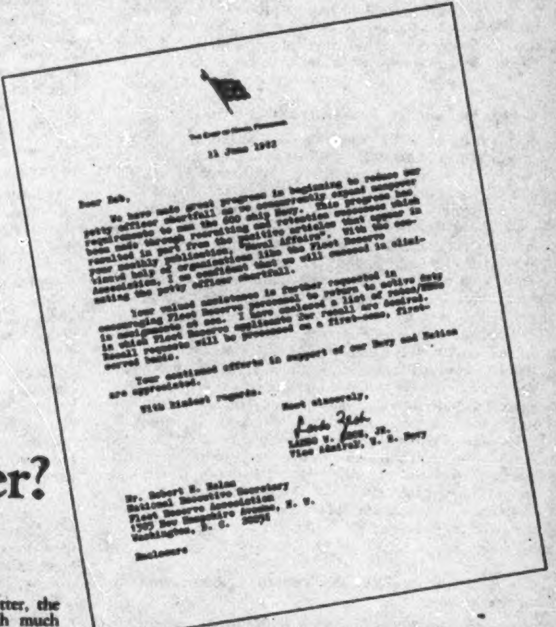
"UNTYING THE KNOT" is a new NAVAL AFFAIRS feature that will explore the often complicated aspects of various active duty and retired programs and benefits.

Untying the Knot

NA answers your questions

Are you yearning for saltspray and blue water?

by Jim Parker



As can be seen from Vice Admiral Zech's letter, the Navy is still hurting for petty officers (though much progress has been made in reducing the manpower shortage) and still would welcome back Fleet Reserve personnel who want to return to active duty in assignments at sea.

The program is open to Fleet Reservists and Selected Reservists who want to volunteer for at least a two-year active duty hitch. Fleet Reservists returning to active duty must be able to complete 24 months of active duty before being placed on the Navy's Retired List. Those who are not able to meet this requirement may be considered on a case basis by being discharged from the Fleet Reserve and immediately enlisting in the U.S. Navy. This action would allow them to continue on active duty beyond 30 years. Selected Reservists must be able to complete 20 years of total active duty by age 55. Volunteers must be physically qualified for active duty. They can get their physical exam at any military command with medical facilities.

Current law requires people returning to active duty from the Fleet Reserve or retirement status to serve a full two years to recompute their retainer or retired pay at the higher active duty rate. Inasmuch as military pay has been increased annually, a volunteer for recall will be able to recompute his retainer/retired pay after release on the pay scale in effect at the time of his return to active duty. Additionally, the volunteer will increase his multiplier factor by two years of active duty (an additional five percent). The current pay scales in effect are:

PAY GRADE	YEARS OF SERVICE 20	22	26
E-7	$1,426.50	$1,522.20	$1,711.50
E-8	1,616.40	1,711.50	1,902.30
E-9	1,844.10	1,941.30	2,130.00

There are other possible advantages that can result from a return to active duty. When a person goes back on active duty, his Survivor Benefit Plan remains in force but he ceases to pay premiums until he returns to Fleet Reserve or retired status. While on active duty after 20 years, he is fully covered by SBP. In the event of his demise on active duty, his surviving dependents are entitled to Dependency Indemnity Compensation (DIC) and if the SBP survivor annuity is greater than the amount of the DIC payment, his surviving dependents receive the difference between the DIC and SBP.

Volunteers should contact the Commander, Naval Military Personnel Command (NMPC-212), Navy Department, Washington, D.C. 20370. Applicants must enclose their most recent Form DD-214 (the Report of Release From Active Duty) together with a report of a military physical completed within 90 days of the application date.

The Navy is not asking you to "buy a pig in a poke" before you volunteer. You may contact Ms. Carol Welleck, NMPC-212, on Autovon 224-3887, Commercial (202) 694-3887, if you are a Fleet Reservist, or, if you are a Selected Reservist, contact either CDR Jim Maxwell or YNCS Len Grasso, his assistant, on Autovon 224-5561, Commercial (202) 694-5561.

The rates and NECs that the Navy is interested in hearing from are:

LIST OF DESIRED RATES/NECS

RATE

ABEC
ACCS
ACC
AECS
AGCS
AQCS
ATCS
AVCM
AWCS
AXCS
AZCM
AZCS
BTCM
CEC
CMC
CTIC
DPCM
DPCS
DSCM
DSCS
EMCM
EMCS
EMC
EOCS
ETCM
ETCS
EWCS
EWC
FTCM
FTCS
FTGC
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BMCS
GMC

RATE

GMGC
GSCM
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HTCM
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MACS
MAC
MMCM
MMCS
MNC
MRC
MSCS
OSCM
OSCS
OTCS
OTC
PHCM
PHCS
PRCM
QMCM
QMCS
QMC
RMCM
RMCS
SKCS
SMC
STCM
STGCS
STGC
STSCS
STSC
TMCM
TMCS

NAVY ENLISTED CLASSIFICATIONS

5311—Saturation Diver
5332—EOD Diver
5333—EOD Diver/Parachutist
5342—Diver First Class

AUGUST 1982

Senator **Jepsen**. Thank you. Mr. McKinney.

STATEMENT OF C. A. (MAC) McKINNEY, SERGEANT MAJOR, USMC RETIRED, EXECUTIVE DIRECTOR FOR GOVERNMENT AFFAIRS, NON-COMMISSIONED OFFICERS ASSOCIATION OF THE UNITED STATES OF AMERICA

Mr. **McKinney**. Mr. Chairman, it is again a pleasure to be here before the subcommittee, and again reiterating Colonel Hennrikus' and Mr. Nolan's remarks. I am acting as not only a spokesman for my association, but that of the Council of Military Organizations.

One of the points that I brought out in my statement, Mr. Chairman, was that in the past decade, the last 10 years, Mr. Nolan and myself, as well as Colonel Hennrikus, have been before committee after committee here on the Hill, talking to the committees about adverse actions taken relative to the military retirement system.

In my prepared statement, I have pointed out, for example, that in that 10-year period, 17 individual actions have been taken which we can say have adversely affected military retired pay. In addition, six major proposals have been introduced which all were aimed at one target, and that was to reduce military retired pay.

In addition to that, there were any number of other single-era proposals offered which, in my period of time when I was trying to research it, finally ran out of space and time because there were that many proposals offered, and most of these that I alluded to or addressed in my prepared statement, as I indicated.

I would like to point out, Mr. Chairman, that the military retirement system is unique. In order to receive pay under the military retirement system, there are certain restrictions or requirements imposed on the recipients of that pay, which really are applicable to other retirees drawing pensions or annuities. And again, I have listed these in my prepared statement.

We believe Congress does not have to apologize for not taking further adverse actions related to military retired pay. I believe this Congress can stand very proudly before the taxpayers of this Nation and say: "We have done enough."

And in my own personal case, if I may just add this to my statement, I have fought in three wars, and I, as an enlisted member of the Marine Corps, did not earn very much money in those years. In fact, I spent two tours on recruiting duty which cost me a lot more than what the services reimbursed me for.

So I do not hesitate one bit to going up before the mailman and picking up that check and taking it down and cashing it. I do not apologize for serving my country, and I do not think that Congress should apologize for taking care of the military retirees who have served this country.

Thank you, Mr. Chairman, and we are ready for any questions.

[The prepared statement of Mr. McKinney follows:]

Prepared Statement of C. A. (Mack) McKinney, Sergeant Major, USMC Retired, Executive Director for Government Affairs

Mr. Chairman. I am C. A. (Mack) McKinney, a retired Sergeant Major, U.S. Marine Corps, and currently the Executive Director of Government Affairs for the Non Commissioned Officers Association of the USA (NCOA). The Association's membership is composed of men and women who are serving or have served as noncommissioned or petty officers in the U.S. Armed Forces. Eighty-three (83) percent are on active duty while the remainder are either reservists, national guardsmen, retirees, or veterans.

NCOA has been selected as one of the three spokesmen for the Council of Military Organizations (COMO) that represent 15 individual associations with a total of one and one-half million members. Each is concerned that once again Congress is considering adverse amendments to the law pertaining to the military retirement system.

Since the advent of the All-Volunteer Force (AVF), military retired pay has been under fire every year. Someone or some group is convinced that military retirees are reaping beneficial rewards that are too liberal or have not been earned by the recipient.

Their approach is purely one addressed to feelings and prejudices rather than reason. For example, proponents of adverse changes to the retirement system offer the case of high-ranking officers while completely ignoring the basic fact that the majority of military retirees are in the enlisted grades.

If anyone had served as an enlisted member prior to the advent of the AVF, and even during the period of years between 1973 and 1980, he or she is acutely aware of the inadequate compensation provided for service to one's country. It is no small injury to one's personal pride to know he or she has been loyal to the Nation then, after finally reaching the pinnacle of dedication, to find that his or her service is now considered insufficient by many for the payments received as retired pay.

For more than a decade, NCOA spokesmen have come before Congress and other governmental bodies protesting adverse proposals or actions aimed at reducing military retired pay. This has been a common practice year after year since 1972. In that time period, the administration or Congress, or both, have taken the following actions to gnaw away at military retired pay:

ADVERSE ACTIONS SINCE 1972

1. Offered six major proposals to change the military retirement system with one thought in mind—reduce the retired pay of future retirees;
2. Offered numerous individual proposals to reduce current and future payments of military retired pay;
3. For some years charged military retirees more to participate in the Survivors Benefit Plan than Federal workers;
4. Reduced space-available travel for military retirees;
5. Imposed major restrictions on CHAMPUS programs, closed many military medical facilities, and reduced the number of medical professionals available to provide outpatient and inpatient care;
6. Authorized garnishment of retired pay;
7. Changed formula for calculating percentage of increases in active duty pay;
8. Capped active duty pay for 3 years (1975, 1978, and 1979);
9. Abolished the 1 percent "kicker" in cost-of-living (COL) adjustments;
10. Eliminated tax exclusions for most disabled military retirees;
11. Reallocated percentages of basic pay to allowances (1976 and 1977);
12. Changed calculation of retired pay to high-3-year average;
13. Announced removal of cost of mortgage interest increases and rises in home payments from the CPI-W beginning Jan. 1, 1985;
14. Changed COL adjustments from semiannually to once a year;
15. Is considering or has adopted statutes permitting the division of retired pay with a former spouse; and
16. Terminated the crediting of 6 or more months as a full year when computing number of years of active service.

Each has adversely affected, will affect, or could have affected the income of current or future military retirees. Those that have or will should suffice so that this Congress need not apologize to the taxpayers of this Nation. "We've done enough," should be the answer.

Currently, Congress is considering two separate proposals that will again adversely affect military retired pay: (1) to cap COL adjustments at 4 percent for the next 3 years, and (2) to adopt a 4-point proposal reducing future payments to a majority of current retirees and all future retirees.

With the constitutional commitment to Congress to raise an army for the defense of the Nation; from the standpoint of this Association's representation of active duty, reserve, and retired military enlisted personnel from all the Armed Forces; and the mandate given to NCOA by its membership and COMO partners; the Association must oppose the adoption of either proposal. From the viewpoint of the vast majority of service members, previous adverse actions, as noted above, and the following restrictions are adequate in themselves to protest further deterioration of military retired pay.

RESTRICTIONS ON RETIRED PAY

1. A considerable amount of military compensation, unlike civilian pay, is paid in allowances—none of which are creditable in determining the amount of retired pay.
2. Certain military retirees must forfeit part of their pay pursuant to Title 5, United States Code.
3. Regular enlisted personnel are not authorized to credit reserve time when computing retired pay.
4. Regular enlisted personnel are not entitled to severance or rehabilitation pay if separated from active duty prior to attaining eligibility for receipt of retired pay.
5. Receipt of retired pay, unlike civilian pensions and annuities, is subject to numerous restrictions and regulations provided by law.
6. Military personnel, for the most, cannot enter military service at other than the lowest pay grade for their component and must depend on the restrictions of step-by-step promotions to attain a satisfactory grade prior to retirement. On the other hand, civilians are not restricted from entering private or federal employment at higher levels in order to earn greater pension benefits.
7. Military retired pay is taxable. This results in the return of part of the payments to both federal and state governments. In many cases, the addition of military retired pay to gross income, equalling one-third of civilian pay, actually doubles the amount the retiree pays each year in taxes.
8. Military retirees who also are retired from federal service have their federal pension offset by years of creditable military service when eligible for receipt of social security benefits (age 62).
9. Military retirees, unlike all others, are not entitled to concurrent payments of veterans compensation. They are required to forfeit part of their retired pay that is equal to that received from the Veterans Administration as compensation for service-connected injuries.

There are many reasons other than what have been offered in this statement that should convince Congress not to further erode military retired pay. For over three decades, the current system has been responsive to the management needs of the active forces as they meet their defense commitments. Further deterioration of the scheme of paying military retirees a just compensation for past and present services, will have an adverse effect on the retention of qualified and experienced volunteers needed to meet the military requirements mandated by this Congress and the President of the United States.

Some of you may recall that it was the Non Commissioned Officers Association that warned Congress in earlier years that it cannot continue to break promises or choose to ignore quality-of-life improvements for the military community without jeopardizing the Nation's defense posture.

Maintaining the integrity of current and future military retired pay is a must. It will be a tragedy should the Congress give with one hand and take with the other. As Senator Roger Jepsen, Chairman, Subcommittee on Manpower and Personnel, remarked to this representative earlier in the year when appearing as a witness on the FY 1983 Defense Authorization Bill; ". . . it is essential that we continue that momentum (of last year) or we shall find ourselves unable to meet the manpower challenges that lie ahead."

NCOA urges this panel to reject any proposal that adversely affects the retired pay of military personnel, now or in the future.

(Please Note: The Association has attached an excerpt from the legislative goals adopted at its 22nd Annual Convention on July 3, 1982. NCOA asks that its content be considered by the panel during the deliberation of the proposals recommending adverse changes to military retired pay of the military retirement system.)

NON-COMMISSIONED OFFICERS ASSOCIATION OF THE USA LEGISLATIVE GOALS, 1982-1983—EXCERPT: MILITARY RETIRED PAY

The Association has joined 13 other private military organizations expressing disapproval of the proposal to reduce the annual adjustments to military retired pay. The group, known as the Council of Military Organizations (COMO), represents more than one and one-half million active, retired, reserve and guard members of the U.S. armed forces and their families.

Additionally, NCOA believes that the vast majority of military retirees were not recipients of the higher rates of pay provided in today's all volunteer force. Many, about two-thirds of the retired component, were enlisted. Their pay while on active duty for 20, 30, or more years was always at or near the poverty level. They made great financial sacrifices in the service of their country while many of their fellow citizens reaped higher salaries in the civilian job market. However great their sacrifices, they were always promised an adequate compensatory reward in retirement.

Many of them participated in combat in one, two or three wars. They served so that this Nation would remain a democracy in which everyone had the opportunity to improve themselves. They served while others sought greater rewards in the civilian sector.

It is inconceivable that anyone would now attempt to place these dedicated men and women in an all-encompassing group of federally-sponsored retirees, then call upon them again to make more sacrifices for their country. The Association submits that military retirees already have done their part. They have contributed more than their share. Let's not ask them to do more until all others have shouldered their part of the Nation's burden.

Therefore, NCOA resolves to memorialize the Commander-in-Chief and Congress to keep its moral obligation to retired military personnel, as now provided in law, and oppose any move to legislate the division of retired military pay.

Senator **Jepsen**. Senator Exon?

Senator **Exon**. Mr. Chairman, I have no questions. I want to review the full testimony that has been presented. I thank each of you for coming and giving us the information that you have this morning.

Senator **Jepsen**. I, too, want to express my appreciation for your testimony this morning. There will be some questions that will be submitted for the record.

At this time, do any of you have any statement in summary?

Mr. **Nolan**. We merely wish to thank you on behalf of the associations we represent, Mr. Chairman.

[Questions with answers supplied follow:]

Questions Submitted by Senator Roger W. Jepsen

FISCAL YEAR 1982 SELECTIVE REENLISTMENT BONUS TERMINATION

Senator **Jepsen**. With the exception of the Air Force, I understand the services have largely stopped paying reenlistment bonuses for the remainder of this fiscal year. Did the shortage of funds result primarily from better than anticipated retention?

NAVY

Admiral **Zech**. Navy's SRB program had to be suspended for the remainder of fiscal year 1982 to stay within our budget. The shortages of funds is primarily attributed to better than anticipated retention during the first 9 months of the year. As a result of this improved retention, the Navy surpassed its fiscal year 1982 goal of 26,400 SRB reenlistments in mid-June 1982.

The increased retention rates and SRB activity we are currently experiencing are making an inroad on solving Navy's mid-grade petty officer shortfall. As you are aware, the Navy is attempting to grow in end-strength while currently recovering from a deficit manning position in critical skills. Some skill inventories, in relation to objectives, are so low that even with high retention in the near term, the petty officer shortages are projected to remain through the late 1980's. Navy's level of SRB program utilization, when combined with pay comparability, provides the most cost-effective mix of incentives to achieve improved retention in selected critical skills experiencing shortages.

ARMY

General **Thurman**. The shortage of reenlistment bonus funds resulted from better than anticipated retention in the SRB skills. Two factors from this improved retention caused the shortages of funds: (1) Understatement of the number of lump sum payments and (2) Larger average payment than originally forecast. The average payment is higher than earlier estimates due to a longer average period of obligated service and a higher average pay grade.

Although combat arms skills were deleted from the SRB program in May, due to fund shortage, combat arm SRB expenditures contributed to our dramatic success in reducing migration out of the combat arm skills. Combat arms initial term reenlistment migration was reduced from 26.2 percent in fiscal year 1981 to 10.5 percent in fiscal year 1982 (through May). As a result we were able to reduce our combat arms NCO shortages from more than 6,000 in September 1981 to about 4,000 in June 1982. The fiscal year 1983 SRB budget request is designed to eliminate that shortage completely.

AIR FORCE

General **Iosue**. To date the Air Force has accurately anticipated the numbers of bonus reenlistments.

MARINE CORPS

General **Cooper**. The shortage of funds resulted from greater than anticipated retention, primarily in those critical skills for which the reenlistment bonuses are intended.

WASHINGTON POST ARTICLE

Senator **Jepsen**. An article appeared in the Washington Post last week stating to the effect that the Army has elected to emphasize modernization of the present size force rather than finance any substantial expansion of manpower. Given what appears to be an unprecedented opportunity to both recruit and retain substantially more qualified personnel, I wonder why the Army has embarked on this course of action, especially if the Army eventually intends to increase manpower levels but in a period when economic conditions may not produce such favorable recruiting and retention trends as we have now.

General **Thurman**. The Army ended the Vietnam War equipped with 1950–60 generation equipment. During this period the Soviet Union mounted a massive modernization effort. To counter this threat the Army embarked on a large-scale research and development effort resulting in modernized equipment for the 1980–90's comparable or superior to the Soviet equipment. The fielding of this equipment must be accomplished within fiscal constraints. Consequently, last year the Army made a commitment to modernize the existing 24-division force before attempting to increase the force structure. We stand by this decision in our fiscal year 1983 budget, even though it means a force smaller than what we are able to recruit in today's economy. We are committed to manning this force with quality personnel, eliminating a hollowness that has existed for some time. The cumulative result will be the most ready, manned and equipped Army we have ever had and provide the base on which to build should any future force expansion occur.

LONG RANGE GOALS

Senator **Jepsen**. The Congress will shortly make a decision on the pay raise for military personnel which will undoubtedly have consequences for manpower beyond 1983. Yet the services rarely provide us with any evidence in the DOD Manpower Requirements Report evidence that it intends to expand the size of its force over the next several years, yet the other services have not provided any indications of what they intend to do. To give us a better idea of what the services have established for planning goals in terms of the size and composition of the force, I would like to get your views on submitting a five-year manpower program. This could be undertaken as a modification to the manpower requirements report submitted annually after release of the President's budget.

ARMY

General **Thurman**. The Five Year Defense Program, of which the manpower program is a portion, is a Department of Defense planning document reflecting internal Department of Defense planning assumptions. As the program approaches the budget year, the assumptions are refined. The result is three updates per year. The use of the program requires a thorough understanding of the assumptions used in developing the manpower program for that specific update. Consequently, the use of the manpower program outside of the Department of Defense would be inappropriate because of the confusion that could occur without a complete understanding of the specific time-sensitive assumptions.

NAVY

Admiral **Zech**. As you observed, Senator, the Navy has indicated, in the Defense Manpower Requirements Report (DMRR), its manpower needs beyond the President's Budget year. In stating our objective of growing to a 15-battle group, 600-ship Navy it was apropos to discuss the manpower we will need to operate such a fleet, particularly since the petty officers of the future must be recruited and trained now.

It would be useful to provide the Congress a discussion of our manpower program for a 5-year period. In future issues of the DMRR, we will be pleased to discuss, on an expanded basis, our manpower needs over a five year period. However, this discussion must remain in general terms, because out year plans are subject to several reviews within the Department of the Navy and the Department of Defense before submission to the Congress as the President's budget request.

AIR FORCE

General **Iosue**. Air Force does develop a 5-year manpower program associated with each budget submission. We would have no objection to providing a general summary of that program in the manpower requirements report. We would envision a level of detail similar to that provided by the Navy in the fiscal year 1983 report, i.e., by Defense Planning and Programing Category. Considerable effort is devoted to developing realistic manpower totals associated with programed force structures and mission changes envisioned up to five years hence. None the less, these totals are at best an estimate of what the actual requirements will be when the Air Force requests funding from Congress. Development of the budget is an iterative process; decisions concerning force requirements in the out years will be revisited several times before actually reaching those out years. Changes in procurement schedules, production schedules, fiscal constraints, technological breakthroughs and congressional decisions on major weapon system procurement all have significant impact on out year manpower totals. With these caveats in mind, however, our 5-year program expressed in aggregate, general terms would certainly be useful as an indicator of our planning goals.

MARINE CORPS

General **Cooper**. The Services could address long-range goals in general terms as part of the introduction section of the DOD Manpower Requirements Report. However, in order to release specific numbers from the 5-Year Defense Program (FYDP) outside of DOD prior to submission of the Presidential Budget, there would have to be a change in DOD policy and new guidance provided by DOD.

IMPROVED EDUCATIONAL BENEFITS

Senator **Jepsen**. General Thurman, providing improved educational benefits in lieu of recruit pay raises would move to a pay system emphasizing educational benefits. Some of us feel that would attract more college-bound youth into the military. Do you agree? If so, wouldn't such a step be worth some modest added costs or modest decline in the numbers of non-college-bound high school graduates that now enter in large numbers and keep up our recruiting statistics?

General **Thurman**. The problem posed here is one of equity and the perception that eliminating junior enlisted pay adjustments may actually penalize a large number of soldiers to accommodate the future educational aspirations of a smaller population. In the short term, the effect would be minimal. However, over the long term all grades require pay comparability. There is little data to isolate the discrete value of educational benefits as a recruiting incentive. We do know the synergistic effect of pay, bonuses, and educational incentives is necessary to appeal to a broad spectrum of American youth. Another problem would be the difficulty in measuring educational benefits against pay to determine pay comparability to the civilian sector. This problem is compounded by the large amount of federally insured funds available for non-military educational loans and grants. Consequently, we cannot assume that more college-bound youth would be attracted to the service unless pay comparability and educational benefits were provided in a manner attractive enough to enhance an individual's propensity to enlist.

AIRCRAFT ACCIDENT SAFETY REPORTS

Senator **Jepsen**. General Iosue, I understand that the Air Force is proposing legislation to protect certain portions of aircraft accident safety investigation reports. What is the status of this proposal?

General IOSUE. That proposed legislation (DOD 97-25) has been transmitted from the Department of Defense to the Office of Management and Budget for clearance.

Senator JEPSEN. Why do you need this legislation? Is its purpose to improve military aircraft safety? If so, how would it accomplish that?

General IOSUE. The safety of our crews and aircraft is critically dependent upon the prevention of recurrence of accidents. The only way to prevent recurrence is to thoroughly investigate each mishap and implement corrective actions for discovered materiel or procedural deficiencies. In order to investigate aircraft mishaps, we must have the cooperation of all parties to the mishap. This includes the military flight crew and maintenance personnel, as well as the civilian manufacturer of the equipment. These people must be free to tell the investigator that they made a mistake, that the aircraft or system failed, or was not designed correctly. If they cannot be completely candid, the safety investigator may never find the true cause of the mishap and our chances of preventing similar mishaps are significantly reduced. These people cannot afford, in today's litigious environment, to be completely candid with a safety investigator unless they are assured that the information they provide will not be used against them for disciplinary or pecuniary purposes. The Air Force, and the other services as well, gives that assurance of confidentiality when a mishap is under investigation. We steadfastly refuse to release information provided under those conditions, citing exemptions 4, 5, and 6 of the Freedom of Information Act and the concept of executive privilege. This method of protecting sensitive safety data has become a very costly and time consuming process. Each time potential litigants are denied privileged information contained in safety reports, protracted legal action occurs. Slowly, over the years, more and more data has been ordered released by the courts. Each case is decided on its own merits, by an individual court. Each time we face this question, the privilege issue is challenged and our entire program of investigating mishaps solely for the prevention of future mishaps is jeopardized. Passage of this legislation would reconcile this issue. The services can then continue to promise confidentiality in exchange for candid testimony, secure in the knowledge that the courts will not abrogate that promise.

Senator JEPSEN. Do the other services and the Department of Justice support this proposal?

General IOSUE. Yes.

Senator JEPSEN. Are there any increased costs associated with the proposal?

General IOSUE. No. Because this legislation codifies existing regulations, it is expected that no additional cost to the government will be incured as a result of enactment of this legislation. In fact, enactment of this legislation will save the money and manhours currently expended in costly litigation.

QUESTIONS SUBMITTED BY SENATOR J. JAMES EXON

TARGETED PAY RAISE

Senator EXON. General Thurman, under your targeting proposal, junior enlisted personnel would get no raise, while junior officers (first lieutenant—captain) would get 5.8 percent.

What is the reason for this? Are we having more trouble attracting officers than we are attracting new enlistees?

General THURMAN. Before a decision was made by OSD on targeting or across-the-board increase for 1 October 1982, I had developed a targeting proposal. The emphasis was on mid-career noncommissioned officers and warrant officers. This focus would send a strong signal of support for these NCO's and would permit us to address pay compression between senior enlisted and warrant officer pay. My targeting option was:

	Percent
E1-E2	0
E3	2.2
E4	4
E5-E6	5.5
E7-E9	4.8
W1-W2	4.8
W3-W4	5.5
01-010	4

Senator EXON. Admiral Zech, the Navy has also gone on record favoring a targeted pay raise giving no pay raise to junior enlisted personnel and 4.4 percent to career enlisted personnel and officers. The economists may tell us that a zero raise for junior enlisted personnel will not have any appreciable effect on recruiting. But don't you think there might be a psychological affect on recruiting if junior enlisted personnel get no pay raise when the lowest GS-1 on the federal payroll gets a 4 percent pay raise.

Admiral **Zech**. I don't think there will be a psychological affect on recruiting if junior enlisted personnel get no pay raise when the lowest GS-1 on the federal payroll gets a 4 percent pay raise. It has been our experience that recruits join the service without much appreciation of what their total pay will be. During recruit training and the immediate following training period basic housing and subsistence needs are accommodated.

On the other hand, we don't want recruit pay to fall below the minimum wage scale because we need to take care of their basic compensation needs. It should be noted that the major reason I personally favor targeting the pay raise toward senior careerists is to send the signal to our careerists that we wanted to provide as close to a comparability increase as possible. The retention of experienced personnel is vital to the Navy, I feel that the psychological impact of targeting toward careerist will have a positive impact on our retention program.

PAY COMPARABILITY

Senator **Exon**. Each of you responded "yes" to the question as to whether military pay is now comparable or close to comparable to civilian pay. Would you elaborate on why you feel this way and provided for the record a numerical analysis of military and civilian pay which demonstrates this case?

Admiral **Zech**. The reason I feel military pay is now roughly comparable to civilian pay is best understood when viewed from a historical perspective. By 1972, in preparation for the All Volunteer Force, Congress had raised military pay to a level generally accepted to be roughly comparable with private sector pay. This situation remained relatively stable through 1974. However, from 1975 through 1979 the situation deteriorated. The cumulative affect of various pay caps and reallocations of pay during this period was that by September 30, 1980 military pay had fallen approximately 17.6 percent behind the Professional, Administrative, Technical and Clerical (PATC) Survey increases since 1972. The PATC survey is an indication of private sector wage growth which PATC survey is an indication of private sector wage growth which military pay has been indirectly linked to by Public Law 90-207 since 1967.

The direct congressional intervention in the wage adjustment process in 1980 and the catch-up pay raise in 1981 have served to restore the level of military pay to rough comparability with the 1972 pay levels and effectively establish October 1981 as an acceptable base point to judge future comparability with the private sector. The table below effectively illustrates the point.

If I may Senator, I would like to make one more pertinent point. With October 1981 as an acceptable base point to judge future pay comparability, it is now timely to enact a pay adjustment mechanism that will maintain the October 1981 level of comparability. The Services have agreed that the Employment Cost Index (ECI) will best facilitate accomplishing this purpose. The ECI is a Bureau of Labor Statistics quarterly survey of national wage/salary change established in 1975. OMB has designated the ECI as a principle federal economic indicator, and it has been determined to be a statistically reliable, accurate indicator of national wage growth. The services feel the ECI is most representative of the total military force and will best facilitate budget projections and provide timely pay increases because of the quarterly sampling rate. A historical comparison of the cash elements of military pay to the ECI is also shown in the table below.

MILITARY PAY COMPARED TO SELECTED EXTERNAL STANDARDS, 1972–81

Year	MP[1]	PATC[2]	ECI[3]
1972	106.0	105.8	No data
1973	113.7	111.5	No data
1974	120.0	118.7	No data
1975	126.0	129.3	129.3
1976	132.0	138.4	138.6
1977	141.4	147.9	148.3
1978	149.2	159.6	159.7
1979	159.6	172.0	170.4

MILITARY PAY COMPARED TO SELECTED EXTERNAL STANDARDS, 1972–81—Continued

Year	MP [1]	PATC [2]	ECI [3]
1980 [4]	179.9	187.7	189.2
1981	205.6	205.9	206.8

[1] Includes basic pay, basic allowance for quarters, and basic allowance for subsistence.
[2] Professional, administrative, technical and clerical survey as reported by BLS.
[3] Employment cost index as reported by BLS.
[4] Includes 10 percent BAS increase effective Sept. 1, 1980.

AVIATION BONUS

Senator EXON. Admiral Zech, the legislative history of the aviation bonus makes it clear that this bonus should be targeted to aviation specialties where it is needed the most. Instead, as you know, the Navy and Marine Corps designated the entire aviation service as a critical shortage area, and paid the bonus to all eligible aviators. Admiral Zech, what is your opinion on the targeting of the aviator bonus? Why shouldn't this bonus be targeted within the officer aviation community the way we target the selective reenlistment bonus in the enlisted ranks?

Admiral ZECH. The aviation bonus was targeted by Navy (to this critically-short 03–05 window) to achieve maximum possible retention gains for the minimum cost. Despite the higher than anticipated retention increase with the bonus (488 pilots and 110 NFOs in fiscal year 1981) Navy is not projected to recover from its pilot deficit until fiscal year 1988/89, fiscal year 1984 for NFO's. Had the bonus eligibility been targeted to a more restrictive window, recovery from the aviator shortfall would have been delayed into the 1990's.

Senator EXON. Admiral Zech, the Navy's own figures show little or no shortage of Naval Flight Officers (NFO's) in any year of service group. Your statement says that while you don't forecast complete recovery form the pilot manning deficit until 1989, you expect the NFO deficit will be eliminated in 1984. Does the Navy want to continue paying the bonus to NFO's until the pilot shortage is resolved in 1989, or will you stop paying the bonus to NFO's after 1984?

Admiral ZECH. Navy would like to continue paying the bonus to NFO's as long as pilots are receiving it. Continuation of payments to NFO's beyond the projected recovery date of 1984, will allow Navy to realize direct dollar savings as a result of the bonus. Elimination of the NFO shortage by 1984 will permit a reduction in the programed NFO training rate in fiscal year 1985 and beyond, resulting in cost reductions of $650,000 for every NFO we do not have to train in the out years as a result of increased retention of experienced NFO's. A similar saving can be realized with reduction of pilot training rates after 1989.

Senator EXON. Admiral Zech, GAO concluded that beyond the 9th year of service, continuation rates for Navy pilots are so high that there is little room for the bonus to improve retention. GAO concluded that much of the money spent on the aviator bonus for pilots beyond the 9th year of service was unnecessarily spent. How do you respond to that criticism?

Admiral ZECH. Bonus payments were in fact made to aviators with continuation rates above 90 percent in order to achieve the maximum possible retention from Navy's critical shortage area, the midgrade (O3–O5) aviator. The decision to establish bonus eligibility over the entire critical shortage window (6th through 15th years of service) was made in order to achieve the most expeditious, cost-effective recovery from the severe aviator shortage (2350 aviators at end of fiscal year 1981). Despite the eligibility window targeted for the entire critical shortage area, Navy will not achieve recovery from its aviator shortage before fiscal year 1988/89 for pilots, fiscal year 1984 for NFO's.

The decision to extract the maximum possible retention from the 9th through 15th years where continuation rates are above 90 percent is cost-effective considering pilot training costs of $850K and NFO costs of $650K. Navy studies show that over a five year period from fiscal year 1983 to 1987, an additional 146 pilots and 40 NFO's will be retained by paying the bonus from the 10th through 15th years. These retained aviators represent a training replacement value of $150 million for an aviation bonus cost of $46.4 million.

Senator EXON. Admiral Zech, General Iosue testified that Air Force pilot retention improved from 26 percent in fiscal year 1979 to 54 percent in fiscal year 1981. This improvement came without the use of the aviator bonus. Navy pilot retention according to your statement went from a low of 30 percent in fiscal year 1980 to 42 percent in fiscal year 1981. The Navy of course used the bonus. Since Air Force pilot retention during this period without the bonus improved even more than Navy pilot retention with the bonus, doesn't this suggest that factors other than the bonus—such as the downturn in hiring by commercial airlines—were more responsible for the improvement in the retention of Navy pilots?

Admiral **Zech**. While factors other than the aviation bonus have contributed to Navy's increased pilot retention, the bonus is considered the primary cause of the retention increase. Attempts to compare Air Force retention rates with Navy rates would be inaccurate since both services use different data bases and length of service windows. Navy computes retention from the cohort group one year prior to two years beyond the completion of initial obligated service. Air Force retention rates are based on the continuation of individuals in the 6th through 11th years of service window.

Navy's retention gains with the aviation bonus have one important advantage, however, and that is the additional obligated service incurred which for the majority of aviators is four years. This means that when the airlines begin to hire again, there will be no significant exodus from the Navy because over 80 percent of our aviators have incurred a continuing service obligation.

PILOT RETENTION

Senator **Exon**. General Iosue, you mentioned in your statement that Air Force pilot retention for fiscal year 1981 was 54 percent compared to only 26 percent in fiscal year 1979. In your opinion, what accounts for this significant turn-around?

General **Iosue**. Many factors contributed to the increase in retention. The decline in the Nation's economy, the compensation improvements passed by Congress in 1980 and 1981, and a strong internal program of initiatives aimed at reducing irritants and improving the Air Force quality of life all helped turn retention around in general. More specifically, in the case of pilots, the severe deterioration in the airline industry and the improvements in Aviation Career Incentive Pay played an especially important role in the retention recovery.

However, while we are encouraged by the recent retention improvements, we must maintain or exceed present levels in order to eliminate the existing shortages and rebuild experience levels as quickly as possible. To do this will require even further compensation increases, particularly as the Nation's economy and the airline industry recover.

AVIATOR BONUS

Senator **Exon**. General Iosue, as you know, 2 years ago, Congress enacted an aviation officer continuation bonus to assist the services in retaining pilots and navigators. At the time the bonus was enacted, the Air Force indicated that it preferred to give its aviators an increase in aviation career incentive pay (flight pay) rather than pay the larger aviator bonus.

Why did the Air Force elect not to use the aviator bonus? Do you have any second thoughts about this decision now—would the Air Force prefer to see its aviators forfeit a portion of this flight pay in order to be eligible for the aviator bonus?

General **Iosue**. During the committee's early consideration of last year's pay bill, the Air Force stated that we could use the aviator bonus in addition to an Aviation Career Incentive Pay (ACIP) increase in the near term to address our aviator shortages. However, during the mark-up, we were asked to make an "either-or" choice between the aviator bonus and the ACIP increase. Given such a choice, we said we would prefer an ACIP increase in light of the uncertainty of the bonus and our clear preference for ACIP as the best long and short term solution to the aviator retention problem. Based on our decision, the bill prohibited the Air Force from using the bonus and denied the ACIP increase to aviators who received the bonus.

We stand by our previous decision and prefer continued use of the ACIP increase instead of the Aviator Bonus to solve our current aviator shortages.

AVIATION OFFICER CONTINUATION PAY

Senator **Exon**. The GAO recently found that the Marine Corps was paying the aviator bonus even though your own figures show that the Marine Corps has an excess of both pilots and NFO's for the grades and years of service for which the bonus is authorized and was paid. Is the GAO criticism accurate?

General **Cooper**. GAO's criticism pertaining to payment of the aviation bonus to pilots and Naval Flight Officers (NFO's) in grades and years of service that we were in excess of requirement, is correct. I want to point out, however, that even though the Marine Corps had an excess in certain grades and year groups, we were short 109 NFO's and 517 company grade officer pilots. The Marine Corps' intent was to apply the bonus to the 6–16 years of aviation service to retain as many aviators as possible to gain immediate relief. By utilizing grade substitution, the Marine Corps was able to to decrease our overall shortages at a most critical period for Marine aviation. We are in the process of transitioning to three new aircraft and increasing our requirements for pilots. The captains and majors already retained by the AOCP program will provide the irreplaceable aviation experience that will be needed to accomplish this transition.

Senator EXON. When will the Marine Corps achieve its inventory objective for pilots and NFO's? In other words, when will the aviator bonus no longer be necessary.

General COOPER. The program initiated by the Marine Corps to reduce its aviator shortage consisted of three parts: increasing the Pilot Training Rate; changes to our assignment policies which would reduce the amount of time our pilots would be away from a flying billet; and the application of the AOCP bonus incentive. Our recovery plan called for the application of these three factors together as a single program which would allow the Marine Corps to meet its requirements for aviators by 1987. The removal of any one of these factors, such as the termination of the AOCP program, would delay our programed recovery date. A recent analysis of aviation separation rates shows that aviator separations are down from the level we experienced last year. Should this trend continue along with the application of our three part program, we expect our inventory to match requirements by 1985.

INDIVIDUAL READY RESERVE INITIATIVES

Senator EXON. General Thurman, as the Army's personnel manager you are very aware of the shortages in the Army's Individual Ready Reserve (IRR). Do you support extension of the military service obligation from 6 to 8 years requested by Department of Defense?

Gerneral THURMAN. Yes. I consider extension of the military service obligation essential and the only effective long term solution to our manpower shortages in the Individual Ready Reserve.

Senator EXON. General Thurman, the Defense Department has also requested authority to pay a reenlistment bonus of $900 to people reenlisting in the IRR for 3 years. Do you support this reenlistment bonus?

General THURMAN. Yes, the Department of the Army concurs with the proposed legislation by the Defense Department requesting the authority to pay a reenlistment bonus of $900 to people reenlisting in the IRR/ING for 3 years.

The IRR/ING reenlistment bonus will be offfered to enlisted soldiers who have completed 6 years of service but not more than 10 years and who have a military occupational specialty (MOS) which is needed to fill a wartime requirement.

An IRR/ING reenlistment bonus possesses the potential of increasing the IRR/ING strength by an estimated 13,000 personnel for fiscal year 1983.

MILITARY RETIREMENT LEGISLATION

Senator EXON. This is a question for all military witnesses. What are your feelings about the changes in military retired pay requested by the administration, most specifically the proposal to limit future increases in retired pay for those retirees whose retired pay is higher than people retiring today with the same grade and years of service?

ARMY

General THURMAN. The Army is very concerned that piecemeal changes may be made to the retirement system without understanding the full implication of such changes. The Fifth Quadrennial Review of Military Compensation (QRMC)—due to begin not later than 1 January 1983 in accordance with 37 USC 1008(b)—is a proper forum for detailed study. The Army has identified the military retirement system as a prime candidate for study in conjunction with the Fifth QRMC.

I do not support the specific constraint you mentioned. First, no in-depth study has been conducted. Regardless, my initial reaction is that a unilateral change is being made in the retirement system—a significant aspect of the "contract" the Army has with its personnel. Such changes made solely from an economic perspective are certain to lead many to consider the government, specifically the Army, an "unreliable employer." Also, crux of the issue is the reason for differences in pay. Adjustments to retired pay are based upon changes in the Consumer Price Index—a reasonably valid measure of inflation. Note that such adjustments were not subject to artificial constraints. That was not true for active duty pay. It was used to attempt to "set the example in pay restraint."

In my opinion, no artificial constraints should be applied to pay—active duty or retired.

NAVY

Admiral **Zech**. Insofar as the military retired pay changes proposed in DOD 97-134 are an administration proposal, I support them. My personal opinion, however, is that they will have an adverse impact on the retention of our career members for the following reasons:

Navy personnel are willing to sacrifice equally with other Americans in dealing with national economic problems, but these proposals single out military retirees.

Military retired pay is one of 90 Federal programs (26 entitlement and 64 other programs) indexed in some manner to Consumer Price Index (CPI).

In 1963 Congress shifted from COLA increases for retirees based on active duty pay raises to adjustments based on CPI to cut budget costs.

Now a proposal is made to use active duty pay raises as a standard to limit or freeze COLA increases, again to cut budget costs.

It is difficult for military members, both active duty and retired, not to conclude that we are breaking faith with them. This, in turn, adversely impacts on the military retirement pay system as a dependable incentive to undertake the hardships associated with a military career.

The 1974 Employee Retirement Income Security Act (ERISA) prohibits the private sector from similarly diminishing their employees' earned pensions.

As the economy improves we may see our careerists leave the military to seek private sector employment and the stability of more dependable retirement programs.

AIR FORCE

General **Iosue**. It is my personal opinion that the retirement proposals were conceived without a detailed analysis of force structure impacts. Air Force analysis reveals that, at a time when Air Force seeks to maintain high retention rates, improve experience levels and minimize accession requirements, the retirement proposals would have the opposite effects: increase turnover, reduce the career force and increase accession requirements; force effectiveness will be reduced; and turnover costs would be substantial. Brief comments on the specific provisions follow:

(1) *Round down checks to next lower dollar.* This change would have a minimal impact on the force and parallels similar changes in social security and Federal civilian retired pay.

(2) *Loss of "look back" protection.* This provision constitutes a serious breach of faith and would penalize some members who have remained past retirement eligibility, those who have been extended beyond High Year of Tenure (HYT) to meet the needs of the Service, and those whose pay has been frozen (Exec Level V cap). In general, it would negatively impact primarily those with over 30 years of service.

(3) *Restricting adjustments to either increase in CPI or active duty pay raise whichever is less.* This change would have a devastating impact on force management. The adverse effects of this concept can best be illustrated by applying it from a historical perspective: if in effect since the 1972 comparability increase, retired pay would have increased 35.1 percent less than the CPI, 15.8 percent less than basic pay; if in effect for the last five years, retired pay would have increased 25.8 percent less than CPI and 14.1 percent less than basic pay. To illustrate the impact, an E-9 retiring in 1972 with 30 years of service would have lost approximately $17,600 by today. However, during the past 10 years, pay growth has averaged 1-2 percent per year less than inflation and thus it could be asserted that this particular 10 year cycle represents a worst case projection of the potential impact of the administration's proposals. To provide another perspective, OSD chose a period during which pay growth and inflation were cumulatively equal (1966 actual—1982 projected). Under these circumstances, the additional lifestream reduction in retired pay (constant dollars), as a result of the administration's proposals, would range from 10 percent-21 percent. Such a degradation of the retirement program would lead to increased accession and training requirements which are estimated to cost the Air Force about $145M a year.

(4) *Limiting/freezing annual COLA for retirees.* This provision would have an extremely adverse effect on all categories of military people (active duty, reserve and retired). It would impact 337,000 Air Force retirees (including 30,600 Title 3 Air

Force Reservists awaiting age 60) and 4,300 Air Force survivors who would have their retired pay depressed to current levels. It is also significant to note that while the 1975 (Senator) Tower amendment is not explicitly repealed by this proposal its enactment would effectively render the Tower amendment, the only beneficial change in the last decade, inoperative. To be specific, there are numerous active duty members who must rely on the Tower amendment to calculate their retired pay. Once retired, these members would have their retired pay capped or frozen until it was depressed to current levels. Their retired pay would undergo substantial erosion before they would receive a full annual adjustment—a serious abrogation of the guarantee embodied in the Tower Amendment.

The end result of all these changes would be declining experience levels, increased training costs and ultimately degraded readiness.

MARINE CORPS

General **Cooper**. The retirement changes proposed by the administration would modify certain elements of military retirement pay. The proposed legislation includes the following provisions: (1) limit or suspend cost-of-living adjustment of current and future retirees, (2) restrict the annual cost-of-living adjustment of retired pay to either the CPI or the active duty pay increase whichever is less, (3) eliminate the one year look-back provision used to compute the retirement annuity, (4) round down monthly retirement checks to the lowest dollar.

The provision to limit future increases in retired pay for those retirees whose retired pay is higher than people retiring today would suspend cost of living adjustments as follows: Suspending or freezing the annual adjustment if the retirement annuity is 120 percent or more than that of a member with the same grade and years of service retiring today; limit to 75 percent of the annual adjustment is the annuity is up to 119 percent of a similar member retiring today. This proposal to freeze or restrict adjustments would appear to effect only those already on the retired roles, however, it would have an extremely adverse impact on all categories of military personnel (active duty, reserve and retired) and their survivors. If it had been in effect on 1 March 1982, DOD-wide about 525,000 military retirees would have received only 75 percent of their annual adjustment; 125,000 would have received no increase at all. Monthly loss varies by grade and years of service; if it had been implemented this year, losses would have ranged from a low of $9 per month to a high of $449 a month. This provision would cap/could freeze retired pay of members currently serving who will use earlier retired pay base under the provisions of the 1975 Tower amendment, which guarantees that members would not suffer a financial loss as a consequence of continued service. Over time this provision will negate the intent of the Tower amendment. We believe this provision will be perceived as a serious breach of faith that will have far reaching impact not adequately considered at the provision's inception.

Another provision that would restrict adjustments to retired pay by either the CPI or the active duty basic pay increase, whichever is lower, is potentially the most damaging. Although active duty pay was increased substantially in 1980 (11.7 percent) and 1981 (14.3 percent) to redress Presidential pay caps and reallocations, under this proposal, retirees would have been limited to 11.7 percent and 8.7 percent respectively. The impact of this can best be illustrated by applying it from a historical perspective. For example, if this proposal had been in effect since January 1972, current retired pay would lag the CPI by 35 percent and basic pay by 11 percent. To further illustrate, a Sergeant Major (E-9) retiring in 1972 with 30 years of service, the cumulative loss would exceed $17,000; the survivor of a Sergeant Major (E-9) who died in 1972 would have lost $9,680 during the same period.

The look-back provision was enacted by Congress in 1967 to protect members eligible for retirement against financial losses in return for extending on active duty to meet the needs of the services. This provision simply preserves an existing entitlement and does not provide a monetary gain. Elimination of "look-back" protection violates a commitment accepted in good faith and could financially penalize members who have extended their service beyond initial retirement eligibility to meet critical service manpower shortages.

The amount of monetary loss associated with this provision would vary. For example, a Sergeant Major (E-9) with over 30 years of service who could have retired on 1 July 1979 but was asked to remain on active duty beyond his high year of tenure (HYT) until 1 October 1982 would lose $20 per month—$5,300 in lifestream earnings. While the degree of loss varies and in some instances may not appear to be significant, the point is that members who extended their period of faithful service under a commitment that they would not suffer a financial penalty as a consequence, now that they have served, this proposal would change the rules and constitute a breach of contract made in good faith.

I believe that it would be inappropriate to make these changes to the retirement system without assessment of the impact on force management and resulting long-term costs. Initial analysis of the impact on force structure indicates that, if these proposals are enacted, retention of active force experience levels would require increased accessions to sustain the force, which would be maintained at a reduced experience level, resulting in diminished readiness of the force. These changes could undermine the effectiveness of the retirement program as a force management device. While the proposals may produce near-term cost savings, they have apparently been advanced without a full understanding of the cause of retired pay inversions, the differences between the military and the civilian retirement system and the long range implications and costs of the changes on force management.

Because of the potential impact on the active duty structure that any change to the compensation program will generate, I consider it imperative that a thorough analysis be conducted of the proposal changes. The forthcoming Fifth Quadrennial Review of Military Compensation would provide an appropriate forum to conduct a joint service assessment of the impact of such a major change to the compensation system.

QUESTIONS SUBMITTED BY SENATOR HARRY F. BYRD, JR.

NO NAVAL FLIGHT OFFICER SHORTAGE

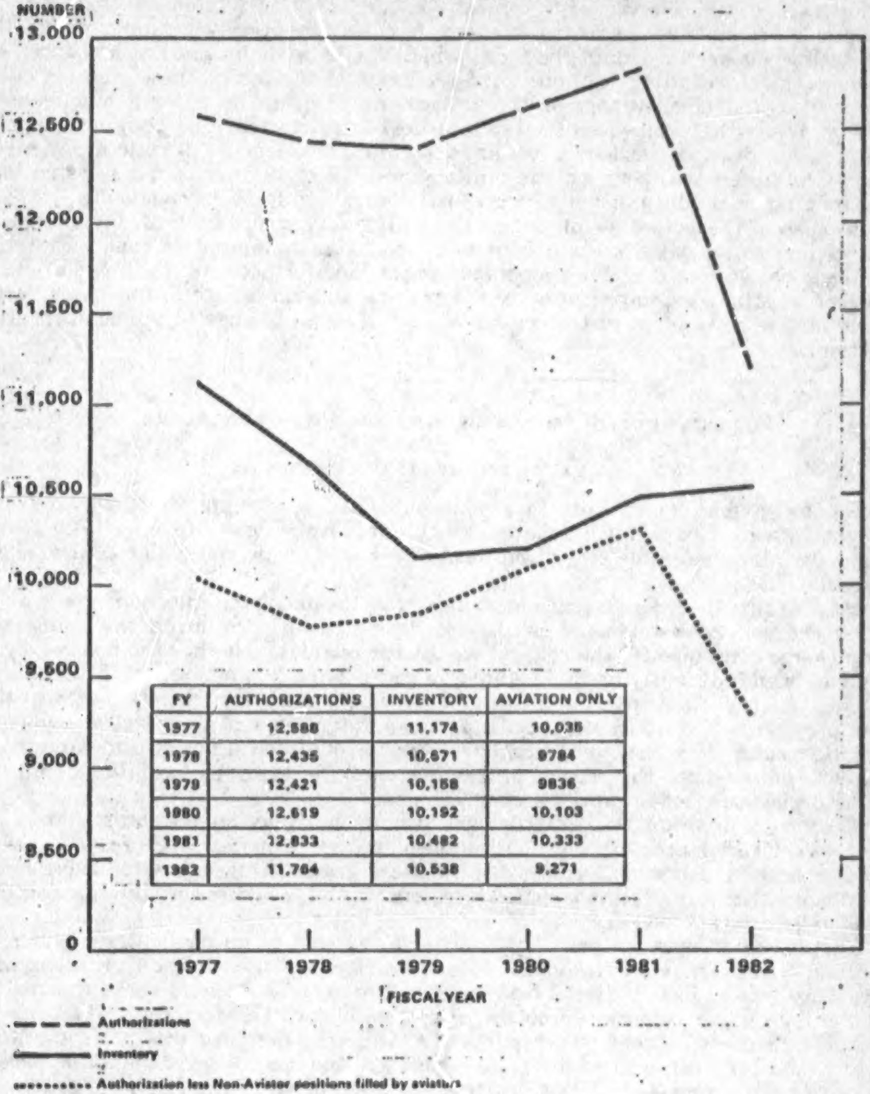
Senator **Byrd**. Your report says you could find no critical shortages in Naval Flight Officers. Since Naval Aviators (NA) and Naval Flight Officers (NFO) are assignably interchangeable other than in the cockpit, how do you define critical shortages for NFOs?

Mr. **Coffey**. In order to respond to this, and the following questions, we will restate the criteria established in the legislative history for using the bonus program—and consequently the criteria we used to evaluate whether the bonus authority had been judiciously used. As stated on pages 2 and 3 of our report (FPCD-82-56, August 9, 1982) the legislative history of the bonus authority clearly indicates that the program was to be used specifically as a retention tool, selectively applied to aviation specialties having critical shortages of qualified officers, and targeted to career points where the receipt of a bonus could be expected to influence an aviators decision to remain in the service.

The bonus program was initially justified by the Navy on the basis that it had serious pilot shortages in grades O-3 to O-5 and was experiencing unusually severe pilot retention problems, presumably in these grades. Our review of Navy's data confirmed that, overall, the shortage problem was with pilots, not NFOs, and that it was in grades O-3 to O-5.

Furthermore, over the past 7 years, the Navy as had no particular problem retaining NFOs. Therefore, in terms of the criteria established in the legislative history, there was no justification for paying bonuses to NFOs because there was neither a shortage nor a retention problem in this specialty. The fact that NFOs are assigned to some desk jobs where pilots are ordinarily assigned was not the criteria which had been established for paying bonuses, and cannot legitimately be used to justify paying bonuses to NFOs. Furthermore, as shown in the following graph, the Navy has historically used many aviators, both pilots and NFOs, to fill non-aviator desk job positions—the so-called general service jobs. As shown below, if these non-aviator jobs were subtracted from Navy's stated aviator requirements, there would be no overall shortages of aviators.

PILOT AND NFO INVENTORY VS. AUTHORIZATION SHOWING IMPACT OF NON-AVIATOR POSITIONS ON OVERALL SHORTAGE PROBLEM



FY	AUTHORIZATIONS	INVENTORY	AVIATION ONLY
1977	12,588	11,174	10,036
1978	12,435	10,671	9784
1979	12,421	10,158	9836
1980	12,619	10,192	10,103
1981	12,833	10,482	10,333
1982	11,764	10,538	9,271

Senator **Byrd**. Define the method that GAO used in determining critical shortages for NAs.

Mr. **Coffey**. Based on your use of the term "naval aviators" in your first question, we presume you are referring to Navy pilots. As stated in response to the first question, we accepted Navy data which shows that they have had, and will continue to have serious pilot shortages. Navy defined these serious pilot shortages as "critical" and we have no reason to dispute their definition. Conversely, Navy data does not show serious shortages of NFOs, and Navy has never claimed that it has "critical" shortages in this specific specialty.

Senator **Byrd**. In your statment to the subcommittee, you state that the pilot shortage is in the 6- to 8-year category. This suggests that the bonus should be applied to this category. The Aviation Officer Professional Development Plan calls for the NA/NFO to return to sea duty for his second tour after the 8-year point. How would the bonus only to the 8-year point encourage the retention of the NA/NFO so that a second sea duty tour would be completed?

Mr. **Coffey**. We reported that, based on service data, the pilot shortage occurs in grades O-3 to O-5, and our analysis showed that the critical retention point for these grades has historically occurred between the 6th and 8th year-of-commissioned service. Beyond the 8th year, a very high percentages of aviators remained in the service. Beginning in the 9th year, the year-to-year continuation rates exceed 90 percent, and by the 12th year it is over 95 percent. Since the legislative criteria was that bonuses be used where they can be expected to influence retention behavior, we concluded that a bonus awarded to pilots in their 6th to 8th year-of-commissioned service would have the most effect on an individual's career decisions. Paying a bonus in the critical 6th to 8th year period and obligating the pilot for 4 years (as most aviators did) would take him beyond 10 years service, thus completing the second tour of sea duty. A bonus would have little impact on NFO's since they were already staying in the service at very high levels.

Senator **Byrd**. If the bonus only went to year 8, as you suggest, would it not tend to encourage NAs/NFOs to leave the service at the end of the bonus period and before the second tour of sea duty, because of the greater demand (family separation) on them?

Mr. **Coffey**. As shown in our report (see pages 9 through 12), the continuation rates for both pilots and NFO's has historically been very high (over 90 percent) after the 9th year of commissioned service, even before bonuses were authorized. This would seem to suggest that other factors, such as retirement benefits, influence aviators beyond the 9th or 10th year of service to remain in the Navy at least until retirement eligibility is reached. Furthermore, a bonus paid in the 6- to 8-year period would obligate an aviator beyond the 10-year point, past the period of a second tour of sea duty. Since most aviators with over 9 or 10 years service stay in until retirement, the payment of a bonus above the 9th year cannot be expected to have much impact on aviators decision to stay in the service.

Senator **Byrd**. You used the term "equity" in terms of describing the bonus application to categories of NAs/NFOs. Did you attempt to determine the effect on individual and unit morale by targeting the bonus to NAs/NFOs and the several categories?

Mr. **Coffey**. The Navy used the term "equity" in arguing that their decision not to target the bonus to critical shortages and at critical retention points was justified. Their argument was that if they did not treat everyone alike, regardless of the specific shortage problems the bonus was intended to solve, that somehow, morale would be adversely affected. Navy could provide no evidence that this would occur, and furthermore the accumulated experience with other targeted bonus programs, such as the selective reenlistment bonus program, provides evidence that morale would not be adversely affected. It is very clear that aviation bonuses were not to be considered as part of the officer's career pay similar to the Aviation Career Incentive Pay (ACIP). Rather, bonuses were to be used to overcome specific short-term shortage problems.

Senator **Byrd**. How have you addressed an adverse morale problem, and how would it impact on unit readiness?

Mr. **Coffey**. Navy was unable to provide any documented evidence that morale would have been adversely affected had they managed the program as the legislative history indicates that should have been managed. Since we could find no evidence of a morale problem, we could not assess the impact on unit readiness this hypothecated problem.

Senator **Byrd**. In your comments you referred to the bonus being given to individuals who had service obligation because of schooling. From your analysis, what would be the effect on advance degree participation if the bonus were denied these individuals?

Mr. COFFEY. Our comments regarding service obligation referred to the initial obligation resulting from flight school, not additional service obligation resulting from participation in advance degree programs. Until recently an aviator's flight training obligation was 4½ years. This has now been increased to 5 years. By law, an aviator was not be eligible for a bonus until this initial obligation was met. We did not find that the Navy or the Marine Corps were paying bonuses to aviators before their flight training obligation was completed, and therefore we made no criticism of the services in this regard. Nevertheless, your question raises an interesting point. Attending a postgraduate school is generally a career decision made jointly by the Navy and the individual officer, and usually occurs after the 8th year-of-commissioned-service, when retention is very high. Looked at from this perspective, one could view postgraduate education as a very strong retention incentive that might well equal the value of the aviation continuation bonus from the standpoint of the individual officer. Therefore, one would not expect to see any adverse impact on participation in postgraduate education if the bonus were targeted to aviation specialties experiencing critical shortages, and at the critical retention points.

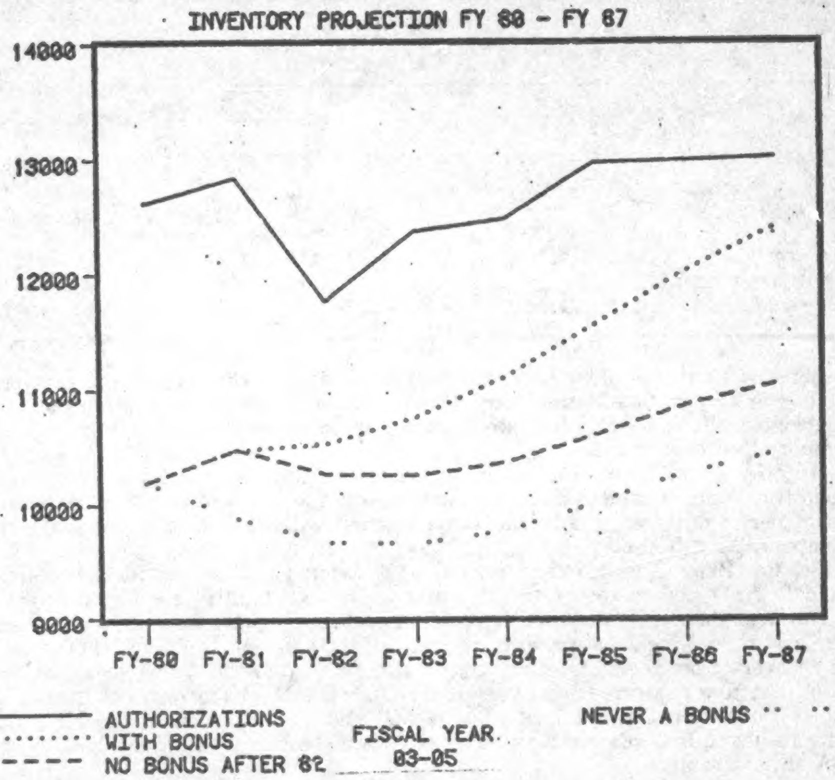
AVIATION BONUS

Senator BYRD. Admiral Zech, why is extension of the existing aviation bonus authority such an important issue to the Navy and how would the Navy like to see the authority extended?

Admiral ZECH. The key to recovery from the current aviator deficit is improved retention of fleet-experienced aviators coupled with attainment of the required aviator training rate. We achieved programed Pilot and NFO Training Rates in fiscal years 1980 and 1981, and are making good progress toward our fiscal year 1982 goal. With AOCP, retention of proven, combat-ready aviators has improved significantly—from 30 percent pilot retention in fiscal year 1980 to 42 percent in fiscal year 1981, and an anticipated 45 percent for fiscal year 1982. This combination of training rate attainment and improved retention will permit a recovery from the manning deficit for the Navy in fiscal year 1988/89 for pilots and fiscal year 1984 for NFOs. Elimination of Navy's NFO shortage in fiscal year 1984 will permit a reduction in programed NFO training rates for fiscal years 1985 and beyond and result in a direct dollar savings of $650,000 per NFO. Additional cost reductions ($850,000 per pilot) will be realized by fiscal years 1988/89 when elimination of the pilot shortage will result in similar reductions in pilot training. The bonus has been a tremendously effective retention tool and has proven to be quite cost effective. Navy would like to see authority extended to continue to pay AOCP in its present form.

Senator BYRD. Admiral Zech, you mention in your statement that the aviation bonus has been an extremely successful program since its implementation in July 1981. Would you compare where you stand today in terms of aviator manning and where you would have been had you not implemented the bonus. Can you also project where you will be if the bonus authority is not extended?

Admiral ZECH. The Department of the Navy's AOCP program was established as a supplement to Aviation Career Incentive Pay (ACIP) to correct current and projected shortages of career officers in aviation specialties. At the end of fiscal year 1980, the mid-grade aviator inventory was 2430 short of authorizations. The AOCP plan for fiscal years 1981 and 1982 was designed to obtain maximum achievable increases in the retention-critical years of career service. Begun in July 1981 after approval by the Appropriations Committees, the plan resulted in the retention of 489 pilots and 110 NFOs who were expected to leave the Navy in fiscal year 1981. The attached chart is a projection of aviator (pilot and NFO) inventory compared to authorizations from fiscal year 1980 to fiscal year 1987. With continuation of the bonus, Naval aviator inventory is predicted to meet authorizations by 1989 (1984 for NFOs only). Without the bonus, you can see that in 1987, Navy will still be some 2000 officers short of authorizations. Without the bonus, at least through fiscal year 1989, there is a probability that our inventory will be inadequate to man our growing 15 battle group Navy, particularly if a resurgence in airline hiring takes place.



Senator BYRD. Admiral Zech, the Navy contends that the aviation bonus is a cost effective program, even for the more senior aviators who receive the bonus. GAO disputes the Navy position. Would you provide the specific information which demonstrates the cost-effectiveness of the bonus?

Admiral ZECH. Payment of the bonus from the 6th through 15th years of service is the most effective means of dealing with its demonstrated mid-grade shortage because it targets the entire shortage area and returns the maximum achievable retention for the minimum cost. Navy data shows that an additional 146 pilots and 40 NFOs are projected to be retained between now and fiscal year 1987 as a result of payment of the bonus through the 15th year. The retention gain of 186 aviators is cost effective and represents a training replacement value of $150 million compared with AOCP program costs of $46.4 million. The attached chart is a graphic illustration of bonus costs and aviators retained over the next five years in years-of-service 10 through 15.

PROJECTED PILOT RETENTION (10TH THROUGH 15TH YEARS OF SERVICE), FISCAL YEAR 1983 TO FISCAL YEAR 1987

[Dollar amounts in millions]

	Years of service—						
	10	11	12	13	14	15	Total
Increase with bonus	53	42	22	15	11	3	146
Total eligible	323	279	375	356	393	411	2,137
AOCP cost	$8.2	$6.8	$7.5	$4.6	$2.9	$1.0	$31.0
Training value at $850,000	45.0	35.7	18.7	12.8	9.4	2.5	124.1
Cost effective	+36.8	+28.9	+11.2	+8.2	+6.5	+1.5	+93.1

PROJECTED NFO RETENTION (10TH THROUGH 15TH YEARS OF SERVICE), FISCAL YEAR 1983 TO FISCAL YEAR 1987

[Dollar amounts in millions]

	Years of service—						
	10	11	12	13	14	15	Total
Increase with bonus	13	10	8	5	3	1	40
Total eligible	176	195	140	184	127	86	908
AOCP cost	$4.5	$4.8	$2.6	$2.4	$.9	$0.2	$15.4
Training value at $850,000	8.4	6.5	5.2	3.3	1.9	.7	26.0
Cost effective	+3.9	+1.7	+2.6	+.9	+1.0	+.5	+10.6

Senator Byrd. Admiral Zech, the Navy has argued that it is important from an equity and operational standpoint that no aviation community, such as NFO's or helicopter pilots, be discriminated against in terms of bonus eligibility. Could you amplify that argument?

Admiral Zech. A keystone of Naval aviation is the team concept. We strongly feel that this concept (and combat readiness) would suffer severely if members of the team performing essentially the same mission with the same inherent risks were compensated differently.

Senator Byrd. Admiral Zech, how can you argue that the Aviator bonus should be paid to NFO's when retention rates among this community are already very high?

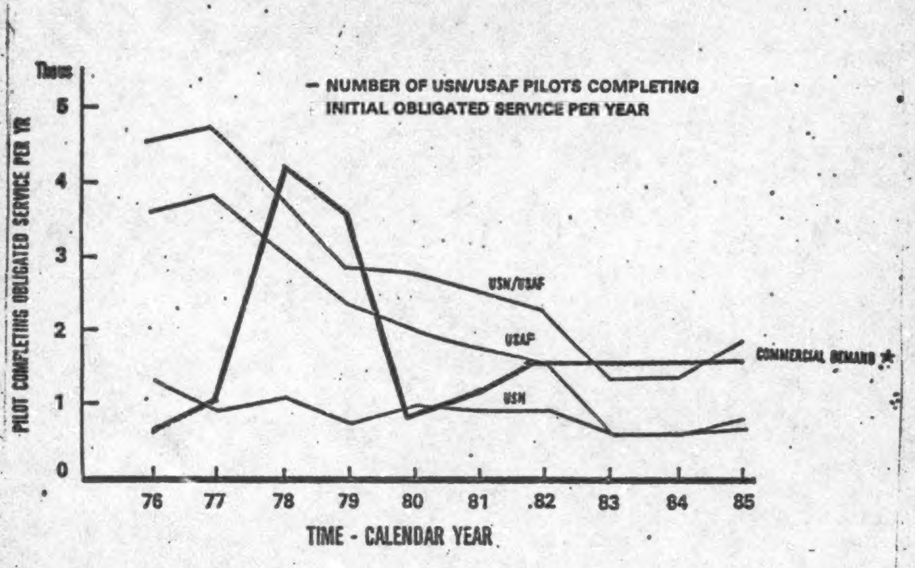
Admiral Zech. NFO retention has in fact been higher than pilot retention over the past three years. As a result, payment of the aviation bonus to NFO's will result in recovery from their manning shortfall by fiscal year 1984, five years earlier than pilot manning recovery (fiscal year 1989). Once the NFO shortage has been eliminated, continuation of the aviation bonus will allow a reduction in the NFO training rate resulting in actual dollar savings of $650,000 for every retained NFO Navy does not have to replace.

Additionally, NFO's are currently cross-detailed to non-flying billets historically filled by pilots. While this cross-detailing process lessens the impact of the pilot shortage, it results in an increase of 8 percent in the midgrade NFO shortage.

Senator Byrd. Admiral Zech, the civilian airline industry has done very little hiring over the past year or so. I would not expect that low hiring rate to continue indefinitely. What impact would a resurgence in civilian airline hiring have on the Navy's aviator manning?

Admiral Zech. The attached chart gives an indication of projected airline hiring as developed by the Future Aviation Professionals of America. Basically it shows a slight increase in hiring through fiscal year 1982 and then a fairly level trend of about 2,000 per year through 1985. As you can see from the graph, total Navy and Air Force pilots combined (that is pilots completing service obligation) do not equal that of airline demand. Therefore, it is imperative that the bonus continue as an incentive to keep our pilots in the service beyond their expiration of obligated service point.

USN/USAF PILOT vs.
MAJOR/NATIONAL AIRLINE PILOT DEMAND



★ FUTURE AVIATION PROFESSIONALS OF AMERICA (FAPA) PROJECTIONS

Senator JEPSEN. Thank you. The committee is adjourned.

[Whereupon, at 12:30 p.m., the subcommittee was adjourned, subject to the call of the Chair.]